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INFORMATION CIRCULAR

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MERIT OIL LTD.

CASTLE TIN MINES LIMITED

} MERGED AS
Pacific ASBESTOS LTD.

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CASTLE TIN MINES LIMITED

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May 1, 1968

Merit Oil Ltd. and Castle Tin Mines Limited

Dear Shareholder:

The Boards of Directors of Merit Oil Ltd. and Castle Tin Mines Limited have approved an agreement that has now been signed for the merger of both concerns. This agreement is subject to the approval of shareholders of both companies which will hold separate meetings on May 27th for this purpose.

As you are aware, we are equal partners in the development of the Woodsreef asbestos property in New South Wales, Australia.

Under the terms of the agreement, Merit will purchase the assets of Castle for shares of Merit. There will also be a consolidation of Merit shares and a renaming of Merit to Pacific Asbestos Limited. This will reflect more accurately the companies' activities. Merit shareholders will receive new Pacific Asbestos shares in exchange for their present Merit shares. The total Pacific Asbestos shares to be so issued is 2,000,881. Castle will receive 2,000,881 new shares of Pacific Asbestos as consideration for the sale of assets referred to. Therefore the total issued and outstanding share capital of Pacific Asbestos after the closing of the transaction will be 4,001,762 shares.

Merit shareholders will receive Pacific Asbestos shares on the basis of one Pacific Asbestos share in exchange for every four shares of Merit presently held. Castle, which has obligated itself to distribute its assets after shareholder approval is obtained, will distribute approximately .45 shares of Pacific Asbestos in exchange for one share of Castle presently held. Accordingly a holder of 100 Merit shares, as presently constituted, will receive 25 Pacific Asbestos shares and a holder of 100 Castle shares will receive approximately 45 Pacific Asbestos shares.

It is anticipated that after the distribution of Pacific Asbestos shares by Castle is completed, the shares of Castle will have no value and Castle's charter will be surrendered.

The new corporate arrangement will bring about savings in duplicated overhead, administrative and management services. It will also enable us to gain flexibility for future financing or negotiation and overcome delays caused by the existence of two Boards of Directors instead of one.

Provisional closing date for the purchase and sale of assets is June 7th. We sincerely hope that you will support this merger proposal which is, we believe, in the best interests of both companies and shareholders. It can substantially speed our efforts to bring the asbestos property to profitable production.

Attached to this letter is the full Memorandum of Agreement including financial statements, Information Circular, proxy and notice of meeting.

We look forward to meeting with you at your shareholders meeting.

Yours truly,

"R. H. Bullied"
President, Merit Oil Ltd.,

"Robert Macaulay"
President, Castle Tin Mines Limited.

MERIT OIL LTD.

CASTLE TIN MINES LIMITED

INFORMATION CIRCULAR

DATED as of the 30th day of April, 1968

Solicitation of Proxies

This Information Circular is furnished in connection with the solicitation by the respective managements of Castle Tin Mines Limited (Castle) and Merit Oil Ltd. (Merit) of proxies to be used at a General Meeting of Shareholders of Castle and at an Extraordinary General Meeting of Shareholders of Merit respectively to be held at the times and places and for the purposes set forth in the accompanying notice of meeting of Castle and Merit respectively. It is expected that the solicitation will be primarily by mail. Proxies may also be solicited personally by directors and officers of Castle and Merit respectively at nominal cost. Each company will bear its own cost of solicitation by their respective managements.

Revocation of Proxies

A shareholder who has given a proxy may revoke it. A proxy may be revoked by instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the head office of Castle or Merit as the case may be, at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used or with the chairman of such meeting of Castle or Merit as the case may be, on the day of the meeting, or adjournment thereof, and upon either of such deposits the proxy is revoked. The head office of Castle is Suite 1015, 159 Bay Street, Toronto, Ontario; the head office of Merit is 5112, Third Street South East, Calgary, Alberta.

Voting Shares and Principal Holders thereof

As of the date hereof, Castle has outstanding 4,420,039 shares with a par value of \$1.00 each, each carrying the right to one vote per share, so that the aggregate number of votes attaching to all the outstanding shares is 4,420,039; Merit has outstanding 8,003,524 shares without nominal or par value, each carrying the right to one vote per share, so that the aggregate number of votes attaching to all the outstanding shares is 8,003,524. The directors and senior officers of Castle do not know of any person or companies beneficially owning, directly or indirectly, shares carrying more than 10% of the voting rights attached to all the shares of Castle. The directors and senior officers of Merit do not know of any person or company owning, directly or indirectly, shares carrying more than 10% of the voting rights attached to all shares of Merit, with the exception of Hanen Investments Limited, 120 Eighth Avenue S.W., Calgary, Alberta, which beneficially owns approximately 968,000 shares of Merit representing approximately 12% of Merit's issued and outstanding shares. S. Hanen, a director of Merit,

same address, owns all the preferred shares which are non-voting of Hanen Investments Limited.

All Castle shareholders of record at the time of the General Meeting of Shareholders of Castle are entitled to vote thereat either in person or by proxy. All Merit shareholders of record at the time of the Extraordinary General Meeting of Shareholders of Merit are entitled to vote thereat either in person or by proxy.

Remuneration of Management and Others

The aggregate direct remuneration paid or payable by Castle and its subsidiaries during Castle's last completed financial year ended May 31, 1967, to the directors and senior officers of Castle was \$1,500. The aggregate of all remuneration payments proposed to be made to the directors and senior officers during Castle's current financial year ending May 31, 1968, is \$7,000. The aggregate direct remuneration paid or payable by Merit and its subsidiaries during the financial year ended May 31, 1967 to the directors and senior officers of Merit amounted to \$1,200. The aggregate remuneration payments made by Merit and its subsidiaries during the financial year ended May 31, 1967 to the directors and senior officers of Merit pursuant to an arrangement for administrative, accounting and office services were \$4,200. The aggregate remuneration payments proposed to be made by Merit and its subsidiaries in the financial year ending May 31, 1968 to the directors and senior officers of Merit are estimated to be \$8,900. The sums of \$1,500, \$7,000, \$4,200 and \$8,900 respectively were paid or are payable pursuant to existing arrangements for administrative, accounting, office and special services for Castle and Merit, performed by M. Clay, a director and Secretary-Treasurer of Castle and Secretary-Treasurer of Merit, 217 Moore Avenue, Toronto, Ontario, and K. R. Besly, a director of Castle and a director of Woodsreef Asbestos Company Limited, (Woodsreef), a wholly owned subsidiary of Merit, and chairman of the board of directors of White Asbestos (Mining) Pty. Limited, (White), a company in which Woodsreef and Castle each own one half of the issued and outstanding shares.

There have not been and there are no pension or retirement benefits or group benefits proposed to be paid to directors or senior officers of either Castle or Merit. Aside from the share purchase warrants of Castle and Merit respectively issued to all Castle shareholders resident in Canada, in November 1967, and to all Merit shareholders resident in Canada, in December, 1967, respectively, no stock options, warrants or rights have been granted to the directors and senior officers of either company since June 1, 1966, except for the following. Castle is informed by Standard Securities Limited that the shares of Castle traded on the over-the-counter market during the months of January and February, 1968, in the range of 42¢ to 58¢.

- (a) An option was granted to J. H. Black, Vice-President and a director of Castle, 24 Grovetree Road, Rexdale, Ontario, on February 8, 1968, for 60,000 fully paid and non-assessable shares of Castle at 45¢ per share, to expire March 29, 1968, for a consideration of \$1.00. 60,000 Castle shares were issued to J. H. Black on February 19, 1968, for a total price of \$27,000.
- (b) R. W. Macaulay, President and a director of Castle, 88 Elm Avenue, Toronto, Ontario, was granted a two year extension to March 8,

1970 on the option that he was granted by an agreement dated December 21, 1965, such option having an expiry date of March 8, 1968. The extension was granted in appreciation of past services and as an incentive for future efforts. The option is for 90,000 fully paid and non-assessable Castle shares at the price of \$1.00 per share on or before the date which is the earlier of: (1) 60 days following the day of his resignation, removal or discharge as an officer or employee of Castle; (2) 6 months following his death; and (3) (with the extension) March 8, 1970. The option has not been exercised yet. The said option provides that in the event of a sale of all of the assets of Castle, then Macaulay may exercise the said option within 30 days of the completion of the sale of the said assets, but not after.

Interest of certain persons and matters to be acted upon.

By Memorandum of Agreement dated as of the 30th day of April, 1968, between Castle, Merit and Robert W. Macaulay (Macaulay), Castle has agreed to sell to Merit all its assets and undertaking. The following directors and senior officers of Castle and Merit respectively and their associates since the commencement of Castle's and Merit's respective financial years ended May 31, 1967, have an interest in Merit and Castle respectively. The information as to shares beneficially owned, not being within the knowledge of Castle and Merit respectively, has been furnished by the respective directors and officers individually. Michael Clay, 217 Moore Avenue, Toronto, Ontario, is Secretary-Treasurer and a director of Castle and is also the Secretary-Treasurer of Merit. He beneficially owns one share of Castle and one share of Merit. K. R. Besly, a director of Castle, is a director of Woodsreef, a wholly owned subsidiary of Merit, and is the chairman of the board of directors of White, a company in which Woodsreef and Castle each own a 50% share interest. He beneficially owns 500 shares of Castle, his wife, Marion E. Besly, same address, beneficially owns 125,496 Castle shares; his children David F. Besly and Eleanor P. Besly, same address, each beneficially own 15,687 Castle shares. He beneficially owns 187,500 shares of Merit. L. G. Dayus, 70 North Drive, Islington, Ontario, a director of Castle, beneficially owns 80,760 shares of Castle and 70,000 shares of Merit. V. R. E. Perry, a former director of Merit, 45 Duggan Avenue, Toronto, Ontario, beneficially owns 1,409 shares of Castle. He is also a partner in the lawfirm of Thomson, Rogers, 120 Adelaide Street West, Toronto, Ontario, which firm beneficially owns 50,000 shares of Castle. R. W. Macaulay, a former director and President of Merit, is the President and a director of Castle. He owns 1,223,420 shares of Castle as trustee, of which he owns 20,290 beneficially. He has an option on the above mentioned 90,000 shares to buy them at \$1.00 per share. He is also a partner in the lawfirm of Thomson, Rogers. He owns no shares of Merit. D. B. Finlay, a former Vice-President of Merit and a former Secretary of Castle, 6918 Marine Drive, West Vancouver, British Columbia, beneficially owns one share of Merit and one share of Castle.

Interest of Management and others in material transactions

A. Castle

By an underwriting and option agreement dated November 9, 1966, S. J. Brooks & Company (now Standard Securities Limited), 185 Bay Street, Toronto, Ontario, as underwriter-optionee acting on behalf of the underwriters, purcha-

sed 200,000 treasury shares from Castle at the price of 30¢ per share and in consideration thereof was granted an option to purchase from Castle an additional 200,000 treasury shares at the price of 35¢ per share on or before April 18, 1967, and 200,000 treasury shares at the price of 40¢ per share on or before July 18, 1967. The said options have been fully exercised and all of the shares distributed. L. G. Dayus, 70 North Drive, Islington, Ontario, director of Castle, had a 5% interest in the said underwriting and option agreement. Sanson Investments Limited, 161 Rivalda Road, Weston, Ontario, had a 45% interest in the said underwriting-option agreement. J. H. Black, 24 Grovetree Road, Rexdale, Ontario, Vice-President and a director of Castle, has a greater than 10% interest in Sanson Investments Limited. Bar-Sted Aggregates Limited, c/o Reid & Robinson, 330 Bay Street, Toronto, Ontario, had a 25% interest in the said underwriting-option agreement. J. Elliott Stedelbauer, 619 Avenue Road, Toronto, Ontario, has a greater than 10% interest in Bar-Sted Aggregates Limited.

Castle issued to shareholders of record as at November 6, 1967, transferable subscription warrants evidencing the right to subscribe at the price of 40¢ per share for one additional common share of Castle for each 5 common shares held by the shareholder. The rights under these subscription warrants expired December 6, 1967. By an underwriting agreement dated June 29, 1967, as amended, Sanson Investments Limited as to a 90% interest therein and L. G. Dayus as to a 10% interest therein agreed to purchase from Castle at the price of 45¢ per share, on the request of Castle, that number of treasury shares of Castle the proceeds of which when added to the proceeds to Castle from the exercise of the subscription warrants would provide Castle with at least \$175,000. The rights issue resulted in the receipt by Castle of \$223,824 from the issue of 584,560 shares; therefore, this underwriting agreement did not come into operation. L. G. Dayus is a director of Castle and J. H. Black, Vice-President and a director of Castle, holds a greater than 10% interest in Sanson Investments Limited.

B. Merit

Merit issued to shareholders of record on December 15, 1967 transferable subscription warrants evidencing the right to subscribe at the price of 12¢ per share for one additional common share of Merit for each five common shares held by them. The rights under the subscription warrants expired on January 25, 1968. By an agreement dated September 1, 1967, R. H. Bullied, President and a director of Merit, 1108 Bellavista Crescent, Calgary Alberta, and S. Hanen, a director of Merit and owner of all the preference shares which are non-voting of Hanen Investments Limited, which owns approximately 12% of the issued shares of Merit, and K. R. Besly guaranteed the exercise of 750,000 shares less that number of shares subscribed for by the shareholders under the rights offering. Since 1,271,023 shares were subscribed for by the shareholders, the said individuals did not have to purchase shares other than through the exercise of share purchase warrants issued to them on a pro rata basis as shareholders.

In respect of the sale by Castle of its assets and undertaking to Merit, material interests have been stated under the heading "Interest of certain persons in matters to be acted upon".

Particulars of Matters to be acted upon

A. Agreement for the sale of Castle's assets to Merit.

By Memorandum of Agreement dated as of the 30th day of April, 1968, between Castle, Merit and Macaulay, Castle has agreed to sell to Merit all

its assets and undertaking for a consideration of 2,000,881 new shares of Merit and the assumption by Merit of all debts, liabilities and obligations of Castle. The relationship of Merit and Castle is as follows:

Merit is a public Company incorporated under the laws of the Province of Alberta in 1957 whose prime interests are in the exploration for and development of the asbestos properties below mentioned. Its shares are listed on the Vancouver Stock Exchange. Merit owns all the issued shares of Woodsreef Asbestos Company Limited (Woodsreef), a company incorporated under the laws of the State of New South Wales, Australia. Woodsreef owns:

- (a) 50% of the "Woodsreef" property, which comprises 40 applications to enter, 2 applications for authority to prospect, one application for a special lease, and 3 applications for lease, which are situated within the limits of the former Mineral Exploration Licence No. 30. All these properties are in New South Wales, Australia;
- (b) the "Esdaile" property, comprising 7 mining leases in New South Wales, Australia; and
- (c) 50% of the issued shares of White Asbestos (Mining) Pty. Limited (White), a company incorporated under the laws of the State of New South Wales, Australia. White owns 9 mineral leases, 20 mineral lease applications, 2 applications to enter, 5 applications for authorities to enter and one mining purpose lease, all in New South Wales, Australia, and known as the "Barraba" property.

Castle is a public company incorporated on April 21, 1965 under the laws of the Province of Ontario. Its shares have traded on the unlisted market in Toronto, Ontario, since October, 1965. The present capital structure of Castle is 5,000,000 shares authorized with a par value of \$1.00 each, of which 4,420,039 are issued. Castle owns:

- (a) 50% of the "Woodsreef" property;
- (b) an option to purchase the other 50% of the issued shares of White from Ampol Petroleum Limited (Ampol), a company incorporated under the laws of the State of New South Wales, Australia. To exercise this option, the Company must make further payments to Ampol of \$12,000 on or before April 30, 1969, and \$81,553 on or before April 30, 1970.
- (c) all the issued shares of Mareeba Mining and Exploration Pty. Limited (Mareeba), a company incorporated under the laws of the State of Queensland, Australia. Mareeba holds 8 mineral leases and 14 dredging leases in Queensland, Australia, and plant and equipment which cost approximately \$209,000;
- (d) All the issued shares of Dover Tin Mines Limited (Dover), a company incorporated under the laws of the Province of Ontario. Dover owns all the issued shares of Dover Tin Mines Pty. Limited (Dover Pty.), a company incorporated under the laws of the State of Queensland, Australia. Dover Pty. has exercised its option to purchase Mineral Leases Nos. 1223, 1253, 1255 and 1364 from Colin Jack Bagdan, Mareeba, Queensland, Australia, on April 14,

1968, pursuant to agreements dated May 16, 1965 and April 15, 1966, as amended by an agreement dated as of June 23, 1967. Dover Pty. now owns 5 mineral leases in Queensland, Australia, having released its interest in mineral leases Nos. 1348, 1349 and 1363 as being uneconomic.

By agreement dated April 26, 1967, White agreed with Ampol that if, at any time prior to April 30, 1970 or such date as the whole of the debt owing to Ampol by Castle is paid, whichever is the later, White shall decide to undertake the commercial exploitation of the Barraba property, Ampol has the right to have allotted to it 10% of the issued capital of White immediately following such allotment upon payment of 10% of all monies expended by White on the acquisition, prospecting and development of the Barraba property.

By agreement dated as of May 1, 1967, as amended by agreements dated as of May 1, 1967, and June 22, 1967, between Castle and Merit:

1. Merit caused Woodsreef to sell to Castle 50% of the "Woodsreef" property (then known as Mineral Exploration Licence No. 30) for \$21,466.
2. Castle and Merit agreed to implement a development programme on an equal participation basis on the White properties as recommended in the report dated May 12, 1967 of Ross D. Lawrence, P. Eng. This programme is under way.
3. Castle and Merit agreed to implement on an equal participation basis a development programme on the "Woodsreef" property. This programme has not yet commenced.
4. Merit agreed not to dispose of its shares in Woodsreef without the prior consent of Castle and Castle agreed not to dispose of its option on the 50% of the shares in White without the prior written consent of Merit.

The present capital structure of Merit is 10,000,000 shares without nominal or par value of which 8,003,524 are issued. By the said purchase and sale agreement Castle and Merit have agreed that the 8,003,524 outstanding shares of Merit will be consolidated on the basis of one new share for four old shares which would result in 2,500,000 shares authorized and 2,000,881 shares issued. Merit will then increase its authorized capital to 7,500,000 shares by obtaining approval for 5,000,000 new shares which will rank pari passu with the 2,500,000 shares already authorized. Merit will not issue any shares in addition to the 2,000,881 referred to prior to closing. Upon closing, Merit will issue from its treasury a like number of shares, that is, 2,000,881, to Castle so that Merit will then have 4,001,762 shares without nominal or par value issued and outstanding. The 2,000,881 shares issued to Castle will all, or substantially all, be distributed pro rata to the shareholders of Castle incidental to the surrender of the charter of Castle, the application for which is to be made within a reasonable time after the closing of the instant transaction. The 2,000,881 shares of Merit to be acquired by Castle shall form part of the shares for trading on the Vancouver Stock Exchange.

This purchase and sale transaction is subject to the approval of the

shareholders of Castle and of Merit respectively as set forth in the said agreement and is subject to the approval of all regulatory bodies having jurisdiction over Castle and Merit respectively, and the approval of the Vancouver Stock Exchange. Accordingly this agreement, a copy of which is annexed to this circular is being submitted to the shareholders of Castle and Merit for their respective approvals and authorizations.

Important conditions in the said agreement are that the net working capital of Merit at the time of closing will be at least \$70,000 less all payments made on the White programme since January 25, 1968, for the account of Merit, and the net working capital position of Castle at the time of closing will be at least \$100,000 less all payments made on the White programme since December 6, 1967 for the account of Castle. Merit's board of directors will be increased to 11 and 5 nominees of Castle are to be appointed to Merit's board at the time of closing by the present directors of Merit pursuant to Merit's Articles of Association. Castle will be entitled to appoint one of its nominees to the office of chairman of the Board of Merit. An executive committee of the board of Merit will be formed, consisting of 4 directors, of which the chairman of the board will be a member. A further condition is that Merit change its name to Pacific Asbestos Limited prior to closing.

Subject to all the terms and conditions of the said agreement being fulfilled, the closing of the transaction is scheduled to take place on the 7th day of June, 1968, or at such other time as may be agreed upon.

Reference is made to Schedule C of the agreement as to the cost to Castle of the various assets being sold to Merit.

The Mareeba properties are located in Queensland, Australia, 120 miles south west of the Town of Mareeba and 150 miles north west of the Town of Townsville. Mareeba mined tin from its properties from April, 1966 to July, 1967, at which time its operations were suspended because the ore could not be recovered profitably with the size of its present plant. There are no plans to increase the plant capacity at this time, and the investment in the Mareeba properties, equipment and related exploration expenditures have been written down to \$60,000, being the anticipated net recovery if a sale were made. According to the report of A. C. A. Howe, P. Eng., dated May 23, 1967, the probable and possible reserves as at March 14, 1967, based on exploration at that time totalled 515 long tons of tin concentrates. From March 14, 1967 to the date operations were suspended 95 long tons were mined, leaving 420 long tons as the present probable and possible reserves. However, to mine these reserves at a profit would require one or more of the following: an increase in the capacity of the plant, an increase in the price of tin, an increase in the yield and a reduction in operating costs. At present, the caretaking costs of Mareeba approximate \$500 per month.

Dover is a holding company, since its sole asset consists of the shares of Dover Pty. The Dover Pty. properties are situated in Queensland, Australia, 96 miles west of the Port of Cairns and 6 miles from the community of Petford which is 54 miles south west of the Town of Mareeba. According to the report of A. C. A. Howe, P. Eng., dated March 21, 1968, the work carried out by Dover Pty. has been thorough and detailed, including an induced polarization survey which has outlined six anomalies and 7,349 feet of diamond drilling. High dollar values in lead, zinc and silver have been encountered but over narrow widths. Results to date indicated the possibility of a high grade lead-zinc-silver occurrence, according to A. C. A. Howe, who has recommended further exploration be carried out. No ore reserves have been proven to date, though Mr. Howe states that "a preliminary

evaluation by B. C. Butt, B.Sc., M.Sc., reports a possible 9,700 tons of ore indicated by drilling, average grade of 6.9% lead, 5.4% zinc and 10.7 ozs./short ton silver." Negotiations are in progress with a possible partner to continue further explorations, but there is no assurance that an agreement will be signed.

The reports of A. C. A. Howe referred to above will be open for inspection and discussion at the Extraordinary General Meeting of Merit and at the General Meeting of Shareholders of Castle respectively called in the enclosed notice of meeting, and at the following offices of Merit at any time prior to the meeting: 5112 Third Street South East, Calgary, Alberta, and Suite 1015, 159 Bay Street, Toronto, Ontario, and at the following office of Castle at any time prior to the meeting: Suite 1015, 159 Bay Street, Toronto, Ontario.

The main reason for Castle selling all its assets and undertaking to Merit is the desirability, in the opinion of the board of directors of both Castle and Merit of consolidating the ownership of White and the operations on the "Woodsreef" properties, thereby reducing overhead, centralizing control, operation and management, and facilitating future negotiations for financing the jointly-owned properties of Castle and Merit to production, should production be warranted.

B. Approval of Memorandum of Agreement of Purchase and Sale by Merit and Castle Shareholders.

The shareholders of both companies under the terms of the said Memorandum of Agreement, must give their respective approvals and authorizations to the said Memorandum of Agreement, a copy of which is enclosed.

C. Rateable Distribution of Property and Surrender of Charter of Castle.

One of the terms of the said purchase and sale agreement with Merit is that Castle make a pro rata distribution of all, or substantially all, of the Merit shares owned by Castle among the shareholders of Castle, provided however, that no distribution of fractions of shares need be made, and that an application be made to the Lieutenant-Governor of the Province of Ontario to accept the surrender of the charter of Castle. The particulars of such distribution and application for surrender of charter are given in the notice calling the meeting.

D. Change of Name, Capitalization, and Articles of Association of Merit.

The shareholders of Merit under the terms and conditions of the purchase and sale agreement, must give their approval and authorization to the change of Merit's name to Pacific Asbestos Limited, to modifying the Memorandum of Association of Merit in respect of its share capitalization, and to altering the Articles of Association of Merit in respect of various matters, particulars of which are given in the notice calling the meeting.

Attached to this Information Circular is a copy of the pro-forma consolidated balance sheet of Pacific Asbestos Limited as at February 1, 1968 prepared by the auditors to assist the shareholders of Castle and Merit to

make a reasoned decision in respect of the purchase and sale transaction.

By order of the respective boards of Merit
Oil Ltd. and Castle Tin Mines Limited.

Michael Clay

Secretary-Treasurer,

MERIT OIL LTD.

CASTLE TIN MINES LIMITED.

RIDDELL, STEAD, GRAHAM & HUTCHISON

CHARTERED ACCOUNTANTS

48 YONGE STREET

TORONTO 1, ONTARIO

To The Shareholders
Pacific Asbestos Limited

The accompanying pro-forma balance sheet as at February 1, 1968 has been prepared by us from the consolidated financial statements of Merit Oil Ltd. and Castle Tin Mines Limited as at January 31, 1968 upon which we have reported to the directors and the financial statements of White Asbestos (Mining) Pty. Limited as at January 31, 1968 which was reported upon by other auditors, and from other information given to us. In accordance with the terms of our engagement we did not perform an audit regarding the other information given to us and accordingly are not in a position to express an opinion on the pro-forma balance sheet.

Riddell, Stead, Graham & Hutchison

Toronto, Ontario
April 28, 1968

PACIFIC ASBESTOS LIMITED

CONSOLIDATED PRO-FORMA BALANCE SHEET AS AT FEBRUARY 1,
1968.

(NOTE 1)

ASSETS

CURRENT ASSETS

Cash	\$	247,763
Accounts receivable		35,400
Due from shareholder less allowance		2,588
Prepayments and deposits		<u>7,506</u>
		293,257

INVESTMENT IN SUBSIDIARY COMPANIES, at
nominal value (Note 2)

2

MINING PROPERTIES AND RELATED EXPENDITURES,
See schedule (Notes 3 and 4)

1,040,461

OTHER ASSETS

Furniture and fixtures less depreciation of \$1,308	\$2,054	
Automotive equipment less depreciation of \$1,246	2,909	
Exchange adjustment account	1,271	
Incorporation expenses, at cost	<u>8,250</u>	14,484

\$ 1,348,204

PACIFIC ASBESTOS LIMITED

CONSOLIDATED PRO-FORMA BALANCE SHEET AS AT FEBRUARY 1,
1968.

LIABILITIES

CURRENT LIABILITIES

Bank indebtedness	\$	15,301
Accounts, payable and accrued		79,769
Loans from shareholders		<u>1,500</u>
		96,570

LONG-TERM DEBT, payable \$12,000 by April 30, 1969 and the balance by April 30, 1970 (Note 2)		93,553
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SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 1)

Authorized	
7,500,000 shares of no par value	
Issued	
4,001,762 shares	\$3,422,122

CONTRIBUTED SURPLUS	190,790
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DEFICIT (Note 3)	2,454,831	<u>1,158,081</u>
		\$ <u><u>1,348,204</u></u>

PACIFIC ASBESTOS LIMITED

NOTES TO THE CONSOLIDATED PRO-FORMA BALANCE SHEET

AS AT FEBRUARY 1, 1968

1. The consolidated pro-forma balance sheet was prepared using the figures as at January 31, 1968 after giving effect to the following:
 - a) The issue of 1 share of the capital stock of Merit Oil Ltd. for one dollar.
 - b) The capital reorganization of Merit by application for supplementary letters patent embodying the following:
 - i) Consolidation of the 8,003,524 issued shares and the 1,996,476 unissued shares into 2,000,881 issued shares and 499,119 unissued shares.
 - ii) Creation of 5,000,000 new shares to rank equally with the shares resulting from the consolidation in (i) above.
 - iii) Change of the name of the company to Pacific Asbestos Limited.
 - c) Acquisition of the net assets of Castle Tin Mines Limited as at January 31, 1968 after giving effect to the following:
 - i) The issue of 60,000 Castle shares at 45¢ each.
 - ii) Exercise of the option on the Dover mineral leases and payment of \$18,000 in connection therewith.
 - iii) Payment of \$12,000 on the option to purchase 50% of the outstanding shares of White Asbestos (Mining) Pty. Limited.
 - iv) Forgiveness of the contingent liability of \$23,976 re the purchase of 3 Mareeba dredging leases.

The resulting net assets of \$556,758 were acquired by the issue of 2,000,881 shares of Pacific valued at the net book value of the acquired assets.

2. Pacific is the registered owner of 50% of the outstanding shares of White Asbestos (Mining) Pty. Limited an Australian company and, as a result of the purchase of Castle Tin Mines Limited, acquired an option on the remaining 50%. Since Pacific is entitled to become the 100% owner of White, it has been considered a wholly-owned subsidiary for this statement and the remaining option payments totalling \$93,553 have been recorded as a liability.

Should the company not make the above payments it could forfeit its interest in the optioned 50% of the shares, in which case it would be released from any claim for the unpaid balance, and would not be entitled to recover payments on the option to that date.

Should White decide to commence production from the property prior to April 30, 1970, Merit's interest could be reduced by the original holder of the shares exercising its option to acquire a 10% interest in the company by subscription for capital stock of White.

The accounts of the other Australian subsidiaries, Woodsreef Asbestos Company Limited and Mareeba Mining & Exploration Pty. Limited and the Canadian subsidiary, Dover Tin Mines Limited with its Australian subsidiary Dover Tin Mines Pty. Limited have been consolidated with those of Pacific Asbestos Limited in the accompanying consolidated pro-forma balance sheet. The accounts of two other subsidiaries have not been consolidated since the companies are inactive and have no tangible assets. The accounts of the Australian subsidiaries have been consolidated since the companies are inactive and have been converted to Canadian dollars at the rate of \$1.20 Canadian to the Australian dollar.

3. Pacific acquired mineral leases in Australia for the issue of 500,000 shares of its capital stock when it was Merit Oil Ltd. upon which the directors placed a value of \$200,000. The leases were transferred to Woodsreef and no value was placed on them in that company's books. Woodsreef then transferred the leases to White and invested \$49,661 for a 50% interest in White. The excess of cost of subsidiary over book value of assets in subsidiary of \$200,000 has therefore been attributed to the mineral leases.

The remaining 50% interest in White under the option, which Merit acquired from Castle, will cost a total of \$108,427. The excess of cost of subsidiary over the related portion of book value of assets in subsidiary of \$76,532 has been attributed to the mineral leases. On consolidation, Pacific has added to deficit its 50% share of the deficit of White.

4. As of July 21, 1967, the mining operations on the Mareeba properties were suspended because the indicated ore, being of a low grade, could not be recovered profitably with the size of the present plant. Due to the uncertainty of future operations, the investment in the property, equipment and exploration expenditures have been written down to \$60,000 being the anticipated net recovery value on sale.
5. An insurance claim receivable is outstanding for an undetermined amount regarding ore which was misplaced or stolen.
6. A claim may be made against the company for the use of equipment. The company does not consider itself liable, however, should the claim be made and prove valid it is not expected to exceed \$7,000.

PACIFIC ASBESTOS LIMITED

CONSOLIDATED PRO-FORMA SCHEDULE OF MINING PROPERTIES

AND RELATED EXPENDITURES

AS AT FEBRUARY 1, 1968

DOVER PROPERTIES, New South Wales, Australia

Mining properties

4 Mineral leases acquired for cash including legal costs of \$3,888	\$ 63,888
1 Mineral lease acquired by staking	192
Exploration and development expenditures	242,459
Equipment less depreciation of \$528	<u>2,579</u>
	\$ <u>309,118</u>

WOODSREEF PROPERTIES, New South Wales, Australia

Mining properties

40 Applications to enter on 35,215 acres	
2 Applications for authority to prospect on 270 acres	
1 Application for special lease on 849 acres	
The above applications were made on property covered by mineral exploration licence #30 and are recorded at the cost of the licence	\$ 5,112
Exploration and development expenditures	<u>44,524</u>
	49,636

Mining property

7 Mining leases, at cost	<u>2,400</u>
	\$ <u>52,036</u>

WHITE PROPERTIES, New South Wales, Australia

Mining properties (Note 3)

9 Mineral leases on 228 acres	\$ 276,532
20 Mineral lease applications on 2,167 acres	
2 Authorities to enter on 1019 acres	
5 Applications for authority to enter on 660 acres	
Exploration and development expenditures	326,522
Mine buildings	4,870
Plant and equipment less depreciation of \$673	<u>10,532</u>
	618,456

Mining property

1 Mining purpose lease #1273	<u>60</u>
	\$ <u>618,516</u>

PACIFIC ASBESTOS LIMITED

CONSOLIDATED PRO-FORMA SCHEDULE OF MINING PROPERTIES

AND RELATED EXPENDITURES

AS AT FEBRUARY 1, 1968

MAREEBA PROPERTIES, New South Wales, Australia

Mining properties

8 Mineral Leases acquired for cash	\$ 56,285
9 Dredging Leases acquired by staking	1,859
2 Dredging Leases	8,701
3 Dredging Leases acquired for cash	19
Exploration and development expenditures	331,303
Dams, at cost less depreciation of \$2,077	29,182
Plant and equipment less depreciation of \$112,624	<u>96,457</u>
	523,806

Less

Depletion, amortization and write-down of property (Note 4)	<u>463,806</u>
	\$ <u>60,000</u>

SUMMARY

Dover properties	\$ 309,118
Woodsreef properties	52,036
White properties	618,516
Mareeba properties	60,000
Sundry deposits	<u>791</u>
	\$ <u><u>1,040,461</u></u>

1968.

MEMORANDUM OF AGREEMENT DATED AS OF THE 30TH DAY OF APRIL,

BETWEEN:

MERIT OIL LTD., a company incorporated
under the laws of Alberta,

(hereinafter referred to as "Merit")

OF THE FIRST PART

-and-

CASTLE TIN MINES LIMITED, a company
incorporated under the laws of
Ontario,

(hereinafter referred to as "Castle")

OF THE SECOND PART

-and-

ROBERT W. MACAULAY, of the City of
Toronto, in the Province of Ontario,

(hereinafter referred to as "Macaulay")

OF THE THIRD PART

WHEREAS Merit desires to purchase all the assets and undertaking of Castle and Castle has agreed to sell the same to Merit for the consideration hereinafter set forth and subject to the terms and conditions herein contained.

AND WHEREAS Macaulay is the President and a shareholder of Castle and has agreed to become party to this agreement as the representative of those shareholders of Castle who may come within the provisions of Section 329 of The Corporations Act, R.S.O. 1960, c. 71.

NOW WITNESSETH THAT in consideration of the mutual covenants herein contained and the sum of \$1 now paid by Macaulay to Merit, the receipt of which is hereby acknowledged, it is agreed by the parties as follows:

Covenant
to sell and
purchase

1. Castle hereby agrees to sell and Merit hereby agrees to purchase all the assets and undertaking of whatsoever nature and kind of Castle as a going concern for the consideration set forth in paragraph 4 below.

Definition
of assets
and under-
taking of
Castle

2. For the purposes of this agreement the term "assets and undertaking of Castle" or any term to the like effect shall mean and be deemed to include all lands, property, leaseholders' rights, goods, chattels, moneys, credits, debts, bills, notes, choses in action, contracts, agreements, shares, secu-

rities, goodwill and other assets and rights whatsoever and wheresoever of Castle including, without limitation the benefit of all material agreements and other instruments of Castle, which agreements and instruments are shown on Schedule A annexed hereto, all advantages derived or to be derived therefrom and the beneficial ownership of the shares shown in Schedule B annexed hereto.

Definition
of liabilities
of
Castle

3. For the purposes of this agreement the term "liabilities of Castle" shall mean: a) all of the liabilities appearing on Castle's unconsolidated Balance Sheet as of January 31, 1968 annexed hereto as Schedule C, or referred to in the notes thereon which remain unpaid at the time of closing; b) all Castle's liabilities and obligations under the agreements and other instruments set forth in Schedule A annexed hereto; c) all liabilities and obligations of Castle incurred or accruing since the 31st day of January 1968 to the date of closing including, without limiting the generality of the foregoing, all expenses attributable to this transaction and the closing of this transaction; d) all costs to be incurred by Castle in complying with the fulfillment of the conditions subsequent to the closing of this transaction, as referred to herein, including security transfer tax if applicable; and e) all obligations in respect of unpaid income taxes and other taxes howsoever or whensoever assessments in respect of same arose.

Consideration for
the purchase
se

4. As part of the consideration for the purchase of the assets and undertaking of Castle, Merit shall assume, pay, satisfy and discharge all the liabilities of Castle and shall execute all such documents, instruments in writing, assumption agreements and releases as may be required by Castle to effect this and Merit shall hold Castle and each of Castle's shareholders indemnified in respect of all such debts, liabilities and obligations, which indemnities shall be embodied in agreements to be executed by Merit and delivered to Castle and to Macaulay at the time of closing. The indemnity to Castle's shareholders shall apply only in respect of any liability arising due to Section 329 of The Corporations Act, R.S.O. 1960, c. 71.

As a further part of the consideration for the purchase of same, Merit shall cause to be allotted and issued to Castle at the time of closing, as fully paid and non-assessable 2,000,881 shares in the capital of Merit, which shares shall be shares resulting from the completion of the conditions referred to in subparagraph (d) of paragraph 5 hereof and which 2,000,881 shares shall represent fifty per cent of the total number of issued shares in the capital of Merit at the time of closing.

Conditions
to be fulfilled by
Merit at
or prior to
closing

5. The purchase and sale of the assets and undertaking of Castle referred to in paragraph 1 hereof are subject to each of the following terms and conditions being fulfilled and/or performed at or prior to the time of closing (except as may be provided otherwise herein) and Merit covenants to use its best efforts to cause each of the said terms and conditions to be so fulfilled and/or performed;

(a) this agreement and the transactions contemplated herein shall be approved and authorized by such acts of Merit's directors and shareholders as may be required in the

opinion of counsel to Castle, so as to allow Merit to enter into this agreement and to complete the transactions contemplated hereunder;

(b) Merit shall obtain, if reasonably required by counsel to Castle, the approval to this agreement and to the transactions contemplated hereunder, of such regulatory bodies as may have jurisdiction over Merit or the sale of Merit's shares, including the Vancouver Stock Exchange, the British Columbia Securities Commission and the Alberta Securities Commission and shall have had accepted for trading on the Vancouver Stock Exchange the shares of Merit that are to be allotted and issued to Castle hereunder at the time of closing and the issue of such shares shall have been approved by the Vancouver Stock Exchange;

(c) Merit shall cause a change of its corporate name to Pacific Asbestos Limited or such similar name as may be acceptable to Castle;

(d) Merit shall cause its share capital to be reorganized from 10,000,000 shares without nominal or par value which may be issued for a maximum price or consideration of \$5,000,000 to 7,500,000 shares without nominal or par value which may be issued for a maximum price consideration of \$7,500,000 by (i) consolidating the 8,003,524 issued and outstanding shares and the 1,996,476 unissued shares without nominal or par value into 2,000,881 issued and outstanding shares and 499,119 unissued shares without nominal or par value, respectively; (ii) increasing the share capital of Merit by the creation of 5,000,000 new shares without nominal or par value each of which shares shall rank pari passu with each of the shares resulting from the consolidation in (i) above; and (iii) increasing the maximum price or consideration for which shares without nominal or par value of Merit may be issued to \$7,500,000;

(e) the Merit Board of Directors shall be increased to eleven directors and five nominees of Castle are to be appointed to the Merit Board at the time of closing;

(f) the office of Chairman of the Board of Merit shall be created and Castle shall have appointed to this office one of its nominees at the time of closing;

(g) an executive committee of the Board of Directors of Merit shall be formed consisting of four directors to which the Chairman of the Board and President shall be appointed as members;

(h) the representations and warranties provided for in paragraph 8 hereof shall be true and correct as at the time of closing;

(i) there shall have been no changes at the time of closing in the financial position of Merit and its subsidiary companies since the 31st day of January, 1968, except such changes as may have occurred in the ordinary course of business or as may have been approved by Castle in writing; and

(j) Merit shall have at the time of closing and shall provide such reasonable evidence as may be required by

Castle a net working capital position of at least \$70,000 less all payments made on the White Asbestos (Mining) Pty. Limited (herein referred to as "White") exploration program since January 25, 1968 for the account of Merit.

Conditions
to be ful-
filled by
Castle at
or prior
to closing

6. The purchase and sale of the assets and undertaking of Castle referred to in paragraph 1 hereof are subject to each of the following terms and conditions being fulfilled and/or performed at or prior to the time of closing (except as otherwise provided herein) and Castle covenants to use its best efforts to cause each of the said terms and conditions to be so fulfilled and/or performed;

(a) this agreement and the transactions contemplated herein shall be approved and authorized by such acts of Castle's directors and shareholders as may be required in the opinion of counsel to Merit so as to allow Castle to enter into this agreement and to complete the transactions contemplated hereunder;

(b) Castle shall obtain, if reasonably required by counsel to Merit, the approval of the Ontario Securities Commission to this agreement and, without limiting the generality of the foregoing, to the proposed distribution of the Merit shares to be received by Castle as part of the purchase price to Castle's shareholders as referred to in paragraph 7;

(c) the representations and warranties provided for in paragraph 9 shall be true and correct as at the time of closing; and

(d) Castle shall have at the time of closing a net working capital position of at least \$100,000 less all payments made on the White exploration program since December 6, 1967 for the account of Castle, and shall provide such reasonable evidence of such financial position as may be required by Merit.

Covenant
of Castle
to distri-
bute Merit
shares

7. Castle hereby covenants to cause the following steps to be taken within a reasonable time after the time of closing;

(a) a pro rata distribution of all or substantially all of the Merit shares owned by Castle shall be made among Castle's shareholders provided however that no distribution of fractions of shares need be made; and

(b) an application shall be made to the Lieutenant Governor of the Province of Ontario to accept the surrender of Castle's charter.

In the event that a shareholders meeting of Merit is convened after the date of closing and prior to the date on which distribution of Merit shares is made by Castle, Castle covenants and agrees to use its best efforts to cause the voting rights attached to the Merit shares owned by Castle at

such time to be distributed to Castle's shareholders of record on a pro rata basis (disregarding fractions) in order to enable Castle's shareholders to vote at said shareholders meeting of Merit.

Representations and warranties of Merit

8. Merit represents and warrants that:

(a) the audited consolidated financial statements of Merit and its subsidiaries as at January 31, 1968 annexed hereto as Schedule D present fairly the assets, liabilities and financial position of Merit and its subsidiaries as at that date, including all liabilities, contingent or otherwise, and including all liabilities for taxes and duties of any nature;

(b) the authorized capital of Merit at the date hereof consists of 10,000,000 shares without nominal or par value and that at the time of closing the authorized capital shall consist of 7,500,000 shares without nominal or par value being composed of 2,500,000 shares resulting from the consolidation referred to in paragraph 5 (d) and 5,000,000 additional shares created subsequent to the date hereof as referred to in paragraph 5 (d) which latter shares will rank pari passu with the said 2,500,000 shares;

(c) the issued capital of Merit at the date hereof consists of 8,003,524 fully paid and non-assessable shares without nominal or par value and that at the time of closing and immediately prior to the allotment and issue of the 2,000,881 shares to Castle referred to in paragraph 4 the issued capital of Merit shall consist of 2,000,881 fully paid and non-assessable shares without nominal or par value, which shares shall be the resulting shares from the consolidation referred to in paragraph 5 (d) of the said 8,003,524 shares into the said 2,000,881 shares;

(d) the shares to be issued to Castle under this agreement shall be issued as fully paid and non-assessable;

(e) no person, firm or corporation now has or at the time of closing will have any agreement or option or any right capable of becoming an agreement for the purchase, subscription or issuance of any unissued shares of Merit, save and except as provided by this agreement;

(f) no shares will be issued by Merit between the date hereof and the time of closing;

(g) no dividend or other distribution on any of the shares of Merit has been declared, paid or authorized since January 31, 1968, and no dividend or other distribution on any of the shares of Merit will be declared, paid or authorized after the date hereof and up to the time of closing;

(h) Merit now owns and at the time of closing will own as the beneficial owner thereof free of all liens, charges and encumbrances whatsoever, the number of issued and outstanding shares indicated on Schedule E of each of the companies listed in Schedule E hereto which companies are hereinafter referred to as "Merit's subsidiaries";

(i) the authorized and issued capital of Merit's subsidiaries is now and at the time of closing will be as set out in Schedule E;

(j) all of the issued shares of Merit's subsidiaries as set out in Schedule E have been duly issued and are outstanding as fully paid and non-assessable shares;

(k) no shares will be issued by any of Merit's subsidiaries between the date hereof and the date of closing;

(l) no person, firm or corporation now has or at the time of closing will have any agreement or option or right capable of becoming an agreement for the purchase from Merit of any of the outstanding shares of Merit's subsidiaries;

(m) no person, firm or corporation now has or at the time of closing will have any agreement or option or any right capable of becoming an agreement for the purchase, subscription or issuance of any unissued shares of any of Merit's subsidiaries;

(n) Woodsreef Asbestos Company Limited ("Woodsreef") which is a wholly-owned subsidiary of Merit, is the owner of 82,768 fully paid ordinary shares in the capital of White, representing 50% of the issued and outstanding voting shares of White;

(o) the authorized capital of White is now and at the time of closing will be 4,000,000 ordinary shares having a par value of 50¢ (Australian) per share;

(p) at the date hereof, there are 165,536 ordinary shares in the capital of White issued and outstanding as fully paid and non-assessable shares, and the number of issued and outstanding shares at the time of closing shall be 165,536 shares;

(q) no shares will be issued by White between the date hereof and the date of closing;

(r) no person, firm or corporation now has or at the time of closing will have any agreement or option or any right capable of becoming an agreement for the purchase from Woodsreef of any of the outstanding shares of White owned by Woodsreef;

(s) no person, firm or corporation now has or at the time of closing will have any agreement or option or any right capable of becoming an agreement for the purchase, subscription or issuance of any unissued shares of White save and except for Ampol Petroleum Limited as set forth in an agreement dated April 26, 1967 between White, Ampol Petroleum Limited, Woodsreef and Castle;

(t) the audited financial statements of White as at January 31, 1968, a copy of which is annexed hereto as Schedule F, present fairly the assets, liabilities and financial position of White as at that date and in particular, without limiting the generality of the foregoing, such statements

show all liabilities, contingent or otherwise, of White as at such date, including all liabilities for taxes and duties of any nature;

(u) the businesses of Merit, Merit's subsidiaries and White have been carried on in the ordinary course since the 31st day of January 1968 and will be carried on in the ordinary course after the date hereof and up to the time of closing, except as disclosed on Schedule E;

(v) no payments by Merit, Merit's subsidiaries or White to officers, directors, shareholders or employees of these respective companies have been made or authorized since January 31, 1968 or will between the date hereof and the time of closing be made or authorized except in the ordinary course of business and at the regular rates of salary or other remuneration;

(w) there are not now any actions, suits or proceedings (whether or not purportedly on behalf of Merit, Merit's subsidiaries or White) pending or to the knowledge of Merit, Merit's subsidiaries or White, threatened against or threatening Merit, Merit's subsidiaries or White at law or in equity or before or by any federal, provincial, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign;

(x) attached hereto as Schedule G is a list of all material agreements to which Merit, Merit's subsidiaries and White respectively are parties and said companies are now and at the time of closing will be in good standing under said agreements and entitled to all rights and benefits thereunder and none of such agreements contain any obligations upon Merit, Merit's subsidiaries or White to make any capital expenditures except for the capital expenditures contemplated in (i) the agreement dated May 1, 1967 as amended, between Merit and Castle, and (ii) the agreement dated April 5, 1968 between Ampol Petroleum Limited, Kevin Robert Besly, Woodsreef, White, Merit and Castle and neither Merit, Merit's subsidiaries nor White will prior to the time of closing, enter into any material contracts, without the written approval of Castle;

(y) the mining properties in respect of which Merit, Merit's subsidiaries and White have any rights at the date hereof are set forth in Schedule H hereof together with a description of such rights and the obligations in respect thereof and at the date hereof and at the time of closing such rights shall be free and clear of liens, charges and encumbrances except as referred to in the said Schedule H, save for normal governmental duties, levies, rental payments, labour requirements and miners' liens and except for minor imperfections of title and encumbrances which are not substantial in amount and do not materially detract from the value of the property subject thereto or materially impair Merit's operations, or that of any of Merit's subsidiaries, or that of White; and neither Merit, nor any of Merit's subsidiaries nor White have at the date hereof nor will have at the time of closing received notice of any material violation of any applicable regulation, ordinance, law or other requirement relating to their respective operations or properties;

Representations and warranties of Castle

(z) Merit has been duly incorporated and organized under the laws of the Province of Alberta, Merit's subsidiaries have been duly incorporated and organized under the respective jurisdictions set out in Schedule E and White has been duly incorporated and organized under the laws of the State of New South Wales and each of the said companies is a valid and subsisting corporation in good standing, except as set forth in Schedule E.

9. Castle represents and warrants that:

(a) the audited consolidated financial statements of Castle and of Castle's subsidiaries as at January 31, 1968 and the audited unconsolidated balance sheet of Castle as at January 31, 1968, copies of which are annexed hereto as Schedules I and C present fairly the assets, liabilities and financial position of Castle, and Castle's subsidiaries, as at that date and in particular, without limiting the generality of the foregoing, such statements show all liabilities, contingent or otherwise, of Castle and Castle's subsidiaries as at such date, including all liabilities for taxes and duties of any nature in excess of \$1,000;

(b) no dividend or other distribution on any of the shares of Castle has been declared, paid or authorized since January 31, 1968; no dividend or other distribution on any of the shares of Castle will be declared, paid or authorized to take effect after the date hereof and up to the time of closing;

(c) Castle now owns and at the time of closing will own as the beneficial owner thereof, free of all liens, charges, and encumbrances whatsoever all of the outstanding shares of each of the companies listed in Schedule B hereto, which companies are herein referred to as "Castle's subsidiaries";

(d) the authorized and issued capital of Castle's subsidiaries is now and at the time of closing will be as set out in Schedule B;

(e) all the issued shares of Castle's subsidiaries as set out in Schedule B will be duly issued and outstanding as fully paid and non-assessable shares;

(f) no shares will be issued by any of Castle's subsidiaries between the date hereof and the date of closing;

(g) no person, firm or corporation now has or at the time of closing will have any agreement or option or any right capable of becoming an agreement for the purchase from Castle of any of the outstanding shares of Castle's subsidiaries owned by Castle;

(h) no person, firm or corporation now has or at the time of closing will have any agreement or option or any right capable of becoming an agreement for the purchase, subscription or issuance of any unissued shares of any of Castle's subsidiaries;

(i) the businesses of Castle and Castle's subsidiaries have been carried on in the ordinary course since January 31, 1968 and will be carried on in the ordinary course after the date hereof and up to the time of closing;

(j) no payments by Castle or Castle's subsidiaries to officers, directors, shareholders or employees of Castle or Castle's subsidiaries have been made or authorized since January 31, 1968, nor will, between the date hereof and the time of closing, be made or authorized in excess of \$2,000 in the aggregate except in the ordinary course of business and at the regular rates of salary or other remuneration;

(k) there are not now any actions, suits or proceedings (whether or not purportedly on behalf of Castle or Castle's subsidiaries) pending or to the knowledge of Castle or Castle's subsidiaries, threatened against or threatening Castle or Castle's subsidiaries, at law or in equity or before or by any federal, provincial, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, save and except for a potential claim against one or more of Castle's subsidiaries by Colin Jack Bagdan, the nature of which has been disclosed to Merit by Castle;

(l) attached hereto as Schedule A is a list of all material agreements to which Castle and Castle's subsidiaries respectively are parties and said companies are now and at the time of closing will be in good standing under said agreements and entitled to all rights and benefits thereunder, and none of such agreements contain any obligations upon Castle or Castle's subsidiaries to make any capital expenditures except for the expenditures contemplated in the agreement dated May 1, 1967, as amended, between Merit and Castle and the agreement between Castle, Ampol Petroleum Limited and others, all dated April 26, 1967, as amended by agreement dated April 5, 1968, and the purchase and sale of the assets and undertaking of Castle herein provided will not have any effect on any of the said agreements, and neither Castle nor Castle's subsidiaries will prior to the time of closing enter into any material agreements without the prior written approval of Merit;

(m) no capital commitments have been made by Castle or any of its subsidiaries since January 31, 1968 except for the capital commitment in respect of (i) the White exploration and development program (ii) the acquisition of Mineral Leases 1223, 1253, 1255 and 1364 from Colin Jack Bagdan by the payment of \$18,000 which was made on or before April 14, 1968; and (iii) the payment of \$10,000 (Australian) made by Castle to Ampol Petroleum Limited as required by the agreements dated April 26, 1967; neither Castle nor any of its subsidiaries have any capital commitments or obligations not disclosed by the said audited consolidated financial statements and no capital commitments will be made after the date hereof and prior to the time of closing by Castle or Castle's subsidiaries without the prior written consent of Merit;

(n) Castle has been duly incorporated and organized under the laws of the Province of Ontario, Castle's subsidiaries have been duly incorporated and organized under the respective laws set out in Schedule B and each of the said companies is a valid and subsisting corporation in good standing;

(o) Castle and Castle's subsidiaries have now and shall have at the time of closing good and marketable title to the assets (excluding mining properties) referred to in Castle's consolidated financial statements as at January 31, 1968 set forth in Schedule I, free and clear of liens, charges and encumbrances, except as stated in the said statements;

(p) Castle is now and shall be at the time of closing the beneficial owner of 82,768 fully paid ordinary shares in the capital of White representing 50% of the issued and outstanding shares of White subject to a mortgage on such shares in favour of Ampol Petroleum Limited contained in an agreement dated April 26, 1967 between Castle and Ampol Petroleum Limited;

(q) there are no agreements in respect of acquisitions or capital expenditures to which Castle or Castle's subsidiaries are parties and there are no agreements in respect of the sale or disposition of any of the assets or undertaking of Castle or Castle's subsidiaries;

(r) there are no restraints or pre-emptive rights of any kind with respect to Castle's ability to sell its assets and undertaking as contemplated hereunder, subject to the fulfillment of the conditions referred to in paragraph 6 (a);

(s) no borrowing, mortgaging, pledging or subjecting to lien of any assets of Castle shall have taken place from January 31, 1968 to the time of closing except for bank borrowing which will not exceed \$25,000 and during such period there shall have been no waiver of any right that Castle may have in respect of any matter of any substance;

(t) the mining properties in respect of which Castle and Castle's subsidiaries have any rights at the date hereof are set forth in Schedule J hereof together with a description of such rights and the obligations in respect thereof and at the date hereof and at the time of closing such rights shall be free and clear of liens, charges and encumbrances except as referred to in the said Schedule J, save for normal governmental duties, levies, rental payments, labour requirements and miners' liens and except for minor imperfections of title and encumbrances which are not substantial in amount and do not materially detract from the value of the property subject thereto or materially impair Castle's operations or that of any of Castle's subsidiaries; and neither Castle, nor any of Castle's subsidiaries have at the date hereof nor will have at the time of closing received notice of any material violation of any applicable regulation, ordinance, law or other requirement relating to their respective operations or properties.

Merit's
right to
withdraw

10. At any time prior to closing, Merit, may, at its option, upon notice to Castle, withdraw from this agreement and terminate all of its obligations hereunder in any one of the following events:

(a) if Castle's shareholders' approval is not obtained by the 31st day of May, 1968;

(b) if the approval of such regulatory bodies as may be required pursuant to paragraph 6 (b) is not obtained by the

time of closing;

(c) if Merit has notified Castle of any defect or deficiency in Castle's title or Castle's subsidiaries' titles to any of their assets and properties which shall be reasonably deemed by Merit to be material, unless such defect or deficiency is remedied prior to closing;

(d) if any lawsuit is brought against either corporate party whereunder the relief claimed would, if granted, prevent Merit from acquiring all or substantially all of the assets and undertaking of Castle;

(e) if any lawsuit is brought against Castle which, if successful, would materially affect its properties, rights and interest intended to be conveyed hereunder;

(f) if any of the conditions set forth in paragraph 6 hereof have not been met by the times required or if any of Castle's representations or warranties are not true and correct statements of fact;

(g) if any corporate proceedings or actions of Castle required to be taken to bring this agreement into effect and to conclude the purchase and sale contemplated hereunder within the times provided are not properly completed.

The exercise by Merit of its right of withdrawal shall terminate all the obligations and liabilities of each party to the others under this agreement.

In the event that Merit shall fail to exercise its right of withdrawal from this agreement under the above provisions, any of the conditions set forth in paragraph 6 which have not been met, or any of the representations and warranties set forth in paragraph 9, which are not true and proper statements of fact on closing, shall be conclusively deemed to have been met or to be true and correct statements of fact on such date and any part of the properties, rights and interest of Castle which Castle has agreed to sell to Merit and which Castle shall not be able to convey and vest in Merit by reason of restrictive covenants or otherwise, shall from the date such inability to convey is finally determined cease to form part of the assets and undertaking of Castle; provided, however, if Castle becomes capable of conveying and vesting any such properties, rights and interest to Merit at any time subsequent to the closing date, Castle agrees to so do provided that Merit pays all costs and expenses therefor.

Castle's
right of
withdraw-
al

11. At any time prior to closing Castle may at its option upon notice in writing to Merit withdraw from this agreement and terminate all of its obligations hereunder in any one of the following events:

(a) if Merit's shareholders' approval as required by paragraph 5 (a) is not obtained by the 31st day of May, 1968;

(b) if the approval of such regulatory bodies as may be required, as set forth in paragraph 5 (b) is not obtained by the time of closing including the approval of the Vancouver Stock Exchange to the issue of the Merit shares contemplated hereunder and to the posting for trading of such shares on

said Exchange;

(c) if any lawsuit is brought against either party prior to closing whereunder the relief claimed would if granted prevent Castle from acquiring the Merit shares referred to in paragraph 4 and dealing with such shares in accordance with paragraph 7;

(d) if any of the conditions set forth in paragraph 5 herein have not been met by the times required or if any of Merit's representations or warranties are not true and correct statements of fact;

(e) if any corporate proceedings or actions of Merit required to be taken to bring this agreement into effect and to conclude the purchase and sale contemplated hereunder within the times provided are not properly completed.

The exercise by Castle of its right of withdrawal from this agreement shall terminate all the obligations and liabilities of each party to the others.

In the event that Castle shall fail to exercise its right of withdrawal, any of the conditions in paragraph 5 which have not been met or any representations and warranties which are not true and correct statements of fact, shall conclusively be deemed to have been met and to have been true and correct statements of fact on such date.

Closing
date

12. Subject to the terms and conditions hereof being complied with, the sale and purchase of the assets and undertaking of Castle is to be closed at 12 o'clock noon on the 7th day of June, 1968, (or such other time and date as may be agreed upon by the President or Secretary of Merit and Castle), such time of closing being herein referred to as the "time of closing" and such date of closing being herein referred to as the "date of closing".

The closing shall take place at the offices of Merit at 5112 Third Street South East, Calgary, Alberta.

Closing

13. At the time of closing Merit shall execute and deliver to Castle all such documents, instruments in writing, assumption agreements, releases and indemnities, as may be required pursuant to paragraph 4 above and shall deliver to Macaulay the indemnity agreement referred to in paragraph 4 above and Castle shall execute and deliver to Merit all deeds, assurances, bills of sale, transfers, assignments and consents necessary to vest in Merit the assets and undertaking of Castle herein agreed to be sold with good and marketable title thereto free from all liens, charges and encumbrances except as hereinbefore provided.

Upon the completion of the foregoing, Merit shall deliver to Castle share certificates representing 2,000,881 shares in the capital of Merit duly registered in the name of Castle or as it may direct, such shares to be fully paid and non-assessable shares.

Corporate
proceed-
ings

14. All corporate proceedings and actions of either corporate party taken to authorize and approve this agreement and to effect the closing of this transaction and to comply with the

regulatory bodies having jurisdiction in respect thereof shall be subject to the approval of the counsel for the opposite corporate party.

Possession

15. All such steps shall be taken by Castle as may be requisite to put Merit in actual possession and operating control of the assets, property and business being purchased hereunder at the time of closing.

After closing, at such reasonable times and after reasonable notice, Castle shall have access to the books and records of Merit pertaining to the operations, business and assets of Castle prior to the time of closing.

Time

16. Time is of the essence.

Waiver of conditions

17. Subject to paragraphs 10 and 11, in case any of the conditions herein contained shall not be fulfilled at or prior to the time of closing the corporate party that did not have the obligations of fulfilling such condition may rescind this agreement by notice to the other corporate party provided that any of the said conditions may be waived in whole or in part by either corporate party without prejudice to its right of rescission in the event of the non-fulfilment of any other condition or conditions or part thereof, any such waiver to be binding only if the same is in writing.

Survival of representations

18. The representations, warranties and covenants herein contained and such certificates as may be given as part of the transactions contemplated hereunder shall survive the closing of the transaction of purchase and sale and notwithstanding the completion of such transaction shall continue in full force and effect until such time as Castle shall have commenced the distribution to its shareholders of the shares of Merit to be received hereunder, at which time such representations, warranties, covenants and certificates, save and except for the provisions of paragraph 7, shall terminate.

Notice clause

19. Any notice which may be given hereunder shall be given in writing and shall be given by mailing the same postage prepaid air mail and registered, addressed, if to Merit, to it at P.O. Box 5520, Station A, Calgary, Alberta; if to Castle, to it at Suite 2200, 120 Adelaide Street West, Toronto, Ontario; if to Macaulay, to him at Suite 2200, 120 Adelaide Street West, Toronto, Ontario; or to such other addresses as any party may notify the others, and such notice shall be deemed to have been given the second business day following the date of mailing; provided however that any notice hereunder may also be given by delivering same to the Presidents of Castle or Merit as the case may be and to Macaulay personally, in which case notice shall be deemed to have been given at the time of delivery.

Further assurance

20. Castle covenants that on the request of Merit after the date of closing and at the sole expense of Merit, to do, sign, and execute all deeds, documents, transfers, assurances, acts, matters and things which are convenient or necessary or which counsel for Merit may advise for more completely and effectually carrying out the provisions of this agreement in conveying, assigning and transferring to and vesting in Merit the assets and undertaking sold pursuant to this agreement.

Appoint- ment of Attor- ney	21. Castle does hereby irrevocably appoint, effective at the time of closing, Merit and its President and Secretary, from time to time, and each of them, the attorney and/or attorneys for Castle, to make, do and execute all such further and other acts, deeds and things, devises, conveyances and assurances whatsoever for the better and more perfectly and absolutely conveying and assuring the sold assets and every part thereof onto Merit, its successors and assigns, as counsel for Merit or its successors and assigns shall reasonably advise or require.
Access to and inform- ation con- cerning assets	22. Castle agrees that Merit may forthwith through its representatives, agents, solicitors, auditors and accountants, commence and carry on an examination and investigation of Castle's title to its assets and undertaking and its books and accounts, and may conduct an appraisal of its physical assets and make or cause to be made such audit of Castle's financial affairs as it thinks fit.
Bulk Sales Act	23. Merit hereby waives compliance by Castle with the provisions of the Bulk Sales Act, R. S. O. 1960, c. 43, and Merit warrants and agrees to pay and discharge all claims of creditors which could be asserted against Castle by reason of such non-compliance, and Merit hereby indemnifies Castle against and holds it harmless with respect to any liability, loss or expense incurred or suffered by Castle by reason of the failure of Castle to comply with the provisions of the said Bulk Sales Act or to discharge such claims of creditors.
Paragraph headings and margin- al notes	24. In this memorandum of agreement, marginal notes are inserted for convenience only and are not to be taken into account in construing or interpreting the same or any of the provisions thereof.
Interpret- ation clau- se	25. In this memorandum of agreement, the reference to Merit shall include Merit under its proposed new name as referred to in paragraph 5 (c) hereof; similarly, reference to Merit shares shall include shares of Merit under its new name as proposed in paragraph 5 (c); whenever reference is made to any statute or section thereof such reference shall be deemed to extend and apply to any amendment to or re-enactment of the said statute or section, as the case may be.
Supersedes other agree- ments or arrangements	26. This agreement replaces and supersedes all other agree- ments or arrangements, written or oral, heretofore made between the parties hereto on the subject matters hereof. 27. This agreement shall enure to the benefit of and be binding upon the heirs, administrators, executors, successors and assigns of the parties hereto respectively.

IN WITNESS WHEREOF this agreement has been executed.

SIGNED, SEALED AND DELIVERED)	MERIT OIL LTD.
)	per: <u>"S.P.KING"</u>
in the presence of)	Director
		per: <u>"S. Hanen"</u>
		Director.

"J. M. FARLEY"

) CASTLE TIN MINES LIMITED
) per: "R. MACAULAY"
) Director
) per: "J. H. BLACK"
) Director
)
) "R. MACAULAY"

MATERIAL AGREEMENTS OF CASTLE AND
CASTLE'S SUBSIDIARIES

1. Agreement dated as of May 1, 1967, as amended by agreements dated as of May 1, 1967 and June 22, 1967 between Castle and Merit, whereby Merit caused Woodsreef Asbestos Company Limited to sell to Castle 50% of the "Woodsreef" property (then known as Mineral Exploration Licence No. 30) and Castle and Merit agreed to participate equally on the White properties and on the "Woodsreef" property.

2. Agreement dated April 26, 1967 between Ampol Petroleum Limited (Ampol), Kevin Robert Besly (Besly), Woodsreef Asbestos Company Limited (Woodsreef), White Asbestos (Mining) Pty. Limited (White), and Castle Tin Mines Limited (Castle) whereby Castle purchased 82,768 shares of White from Ampol, and by agreement dated April 26, 1967 between Castle and Ampol, Castle mortgaged the said shares to Ampol. By agreement dated April 26, 1967, between White, Ampol, Woodsreef and Castle, White agreed to issue 10% of its then outstanding shares to Ampol in return for certain payments if White undertook commercial exploitation of its Barraba property. By agreement dated April 5, 1968, between Ampol, Besly, Woodsreef, White, Merit and Castle, the parties agreed to the assignment of Castle's interests in said agreements to Merit subject to the obligations of Castle thereunder being assumed by Merit. This agreement is subject to the completion of the sale of assets of Castle to Merit as referred to in the agreement between the companies dated as of the 30th day of April, 1968.

3. Agreement dated December 21, 1965 between R. W. Macaulay and Castle was extended to expire on March 8, 1970 whereby R. W. Macaulay has the option to purchase 90,000 shares of Castle for \$1.00 per share, this option may be exercised for 30 days after the sale of Castle's assets, but not after.

SUBSIDIARIES OF CASTLE TIN MINES LIMITED

(a) Mareeba Mining and Exploration Pty. Limited, active company, incorporated under the laws of the State of Queensland, Australia by Memorandum of Association, authorized share capital - 10,000 ordinary shares with par value of \$2.00 Australian each, issued and outstanding - 8,352, Castle owns all 8,352 issued shares.

(b) Dover Tin Mines Limited, active company, incorporated under the laws of Ontario by Letters Patent, authorized share capital - 3,000,000 common shares with par value of \$1.00 each, issued and outstanding - 5, Castle owns all 5 issued shares.

(c) Dover Tin Mines (Pty.) Limited, active company, incorporated under the laws of the State of Queensland, Australia, by Memorandum of Association, authorized share capital - 10,000 ordinary shares with par value of \$1.00 Australian each, issued and outstanding - 4, Dover Tin Mines Limited owns all 4 issued shares.

RIDDELL, STEAD, GRAHAM & HUTCHISON
CHARTERED ACCOUNTANTS

48 YONGE STREET
TORONTO 1, ONTARIO

AUDITORS' REPORT

To The Directors
Castle Tin Mines Limited

We have examined the balance sheet of Castle Tin Mines Limited as at January 31, 1968. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion this balance sheet presents fairly the financial position of the company as at January 31, 1968, in accordance with generally accepted accounting principles.

Riddell, Stead, Graham & Hutchison

Toronto, Ontario
March 22, 1968

CASTLE TIN MINES LIMITED
BALANCE SHEET AS AT JANUARY 31, 1968.

Assets

Current Assets

Cash		\$115,000
------	--	-----------

Investment in Wholly Owned Subsidiaries

Dover Tin Mines Limited

Shares	5	
Advances	391,955	
	391,960	
Less Deficit to January 31, 1968	84,579	307,381

Mareeba Mining & Exploration Pty. Limited (Note 1)

Shares	20,044	
Advances	657,837	
	677,881	
Less Deficit to January 31, 1968	626,530	51,351 358,732

Investment in White Asbestos (Mining) Pty. Limited (Notes 2 and 3)

Option to purchase 50% interest in shares	2,874	
Advances	80,262	83,136

Mining Properties (Note 3)

40 Applications to enter on 35,215 acres)
2 Applications for authority to prospect on 270 acres)
1 Application for special lease on 849 acres) 21,466

Other Assets

Office equipment, at cost	239	
Incorporation expense	2,104	2,343
		580,677

Liabilities

Current Liabilities

Bank indebtedness		15,232
Accounts, payable and accrued		17,517
Due to shareholder		1,500
Due to Merit Oil Ltd. (Note 3)		16,670

Future Commitments and Contingent Liabilities (Notes 2, 3 and 6)		50,919
---	--	--------

Shareholders' Equity

Capital Stock (Note 4)

Authorized		
5,000,000 shares, par value \$1		
Issued		
4,360,039 shares	4,360,039	
Less Discount	2,995,424	
	1,364,615	
	834,857	

<u>Deficit</u>		529,758
		580,677

CASTLE TIN MINES LIMITED

NOTES TO THE BALANCE SHEET AS AT JANUARY 31, 1968

1. As of July 21, 1967 the mining operations on the Mareeba Mining & Exploration Pty. Limited properties were suspended because the indicated ore, being of a low grade, could not be recovered profitably with the size of the present plant. Due to the uncertainty of future operations the investment in property, equipment and exploration expenditures has been written down on the subsidiary Company's records to the anticipated net recovery value on sale.
2. The company is the registered holder of 50% of the outstanding share capital of White Asbestos (Mining) Pty. Limited. The purchase agreement required a payment of \$821 on account and an advance of \$11,179 to White. Legal fees of \$2,053 have been paid in connection with the purchase resulting in a cost of investment in shares of \$2,874. To complete the purchase the following payments must be made

\$12,000 on or before April 30, 1968

\$12,000 on or before April 30, 1969

\$81,553 on or before April 30, 1970

Upon default of any of the above payments the company could forfeit its interest in the shares, and in the event of default the company would be released from any claim for the unpaid balance, and would not be entitled to recover payments made to that date. The transaction has therefore been regarded as an option to purchase the shares of White Asbestos (Mining) Pty. Limited.

Should White decide to commence production from the property prior to April 30, 1970 the Company's interest could be reduced by 5% by the original holder of the shares exercising its option to acquire a 10% interest in the company by subscription for capital stock of White Asbestos (Mining) Pty. Limited.

3. The Company entered into a joint exploration program with Merit Oil Ltd. on the White Asbestos properties, at which time it was estimated that the Company's portion of the cost of the program would be \$96,000. To January 31, 1968 Castle has incurred \$68,000 in costs regarding the program of which it has advanced \$51,330 and is indebted to Merit Oil Ltd. in the amount of \$16,670. In order to retain its interest each company must contribute its share of the costs, providing the other company completes the program.

The Company has also purchased from Merit Oil Ltd. a 50% interest in certain properties of Woodsreef Asbestos Company Limited for \$21,466 and agreed to a joint exploration program. The program was laid out in stages and Castle's share of stage 1 would be \$4,700 and if warranted stage 2 would be \$7,300. Neither stage has been commenced.

4. Subsequent to January 31, 1968, 60,000 shares of the capital stock of the Company were sold to a director at 45¢ per share pursuant to an agreement dated February 8, 1968.

By agreement dated December 21, 1965, and amended February 27, 1968 the Company granted an option to its president on 90,000 shares of the capital stock of the Company exercisable at \$1 on or before March 8, 1970.

5. Castle and Merit have agreed in principle to the sale of the assets of Castle to Merit and assumption by Merit of the liabilities of Castle subject to approval by shareholders and regulatory bodies. The details of the plan have not been finalized, however, Castle will receive and distribute to its shareholders a number of shares of Merit equal to the outstanding share capital of Merit immediately prior to its acquisition of the Castle assets.
6. A claim may be made against the Company for the use of the equipment. The Company does not consider itself liable, however, should the claim be made and prove valid it is not expected to exceed \$7,000.
7. An insurance claim receivable is outstanding for an undetermined amount regarding ore which was misplaced or stolen.

RIDDELL, STEAD, GRAHAM & HUTCHISON
CHARTERED ACCOUNTANTS

48 YONGE STREET
TORONTO 1, ONTARIO

AUDITORS' REPORT

To The Directors
Merit Oil Ltd.

We have examined the consolidated balance sheet of Merit Oil Ltd. as at January 31, 1968 and the consolidated statement of administrative expenses and deficit, deferred exploration and development expenditures and source and application of funds for the period then ended. Our examination of the financial statements of Merit Oil Ltd. included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of the subsidiary.

In our opinion these financial statements present fairly the financial position of the companies as at January 31, 1968 and the results of their operations and the source and application of their funds for the period then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Riddell, Stead, Graham & Hutchison

Toronto, Ontario
March 22, 1968

MERIT OIL LTD.

CONSOLIDATED BALANCE SHEET AS AT JANUARY 31, 1968

ASSETS

	January 31, 1968	May 31, 1967
CURRENT ASSETS		
Cash	\$ 111,920	48,122
Accounts receivable	8,455	8,790
Due from shareholder, less allowance	2,588	3,000
Current account with White Asbestos (Mining) Pty. Limited	13,570	-
Due from Castle Tin Mines Limited (Note 4)	16,670	-
Prepayments and deposits	3,225	3,475
	<u>156,428</u>	<u>63,387</u>
MINING PROPERTIES AND RELATED EXPENDITURES, See schedule	30,570	47,707
	<u> </u>	<u> </u>
INVESTMENT IN AND ADVANCES TO WHITE ASBESTOS (MINING) PTY. LIMITED		
Shares, at cost (Note 3)	249,661	249,661
Advances (Note 4)	195,026	132,784
	<u>444,687</u>	<u>382,445</u>
	<u> </u>	<u> </u>
INVESTMENT IN SUBSIDIARY COMPANIES, at nominal value (Note 1)	2	2
	<u> </u>	<u> </u>
OTHER ASSETS, at cost		
Furniture and fixtures less depreciation of \$984	765	854
Automotive equipment less depreciation of \$1,246	2,909	3,899
Incorporation expenses	2,103	2,103
	<u>5,777</u>	<u>6,856</u>
	<u> </u>	<u> </u>
	<u>\$ 637,464</u>	<u>500,397</u>

MERIT OIL LTD.
CONSOLIDATED BALANCE SHEET AS AT JANUARY 31, 1968

LIABILITIES

	January 31, 1968	May 31, 1967
CURRENT LIABILITIES		
Accounts, payable and accrued	\$ 18,375	6,712
	<hr/>	<hr/>

SHAREHOLDERS' EQUITY

CAPITAL STOCK		
Authorized		
10,000,000 shares of no par value		
Issued		
8,003,523 shares (1,271,023 shares issued during the period for cash)	2,865,363	2,712,840
CONTRIBUTED SURPLUS	<u>190,790</u>	<u>190,790</u>
	3,056,153	2,903,630
DEFICIT	<u>2,437,064</u>	<u>2,409,945</u>
	619,089	493,685
	<hr/>	<hr/>
	\$ 637,464	500,397
	<hr/> <hr/>	<hr/> <hr/>

Signed on behalf of the Board:

"S.P.King"	Director.
"S. Hanen"	Director.

MERIT OIL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE EIGHT MONTHS ENDED JANUARY 31, 1968

1. The accounts of the wholly owned subsidiary Woodsreef Asbestos Company Limited, an Australian company, have been consolidated with those of Merit Oil Ltd. in the accompanying financial statements at the rate of \$1.20 Canadian to the Australian dollar. The accounts of the other two subsidiaries have not been consolidated since the companies are inactive and have no tangible assets.
2. The company sold a 50% interest in the Woodsreef property to Castle Tin Mines Limited for a consideration of 50% of all costs to April 30, 1967 and agreed to a joint exploration program. The program was laid out in stages and Merit's share of Stage 1 would be \$4,700 and if warranted Stage 2 would be \$7,300. Although some expenditures have been made since on the property the joint program has not been commenced.
3. Merit Oil Ltd. acquired mineral leases in Australia for the issue of 500,000 shares of its capital stock upon which the directors placed a value of \$200,000. The leases were transferred to Woodsreef Asbestos Company Limited, a wholly owned subsidiary incorporated for the purpose of acquiring the leases, and no value was placed upon them in that company's books. Woodsreef transferred the mineral leases to White Asbestos (Mining) Pty. Limited and invested \$49,661 for a 50% interest in White. The excess of cost of subsidiary over book value of assets in subsidiary of \$200,000 has therefore been attributed to the investment in shares of White.
4. By agreement dated May 1, 1967 Merit entered into a joint exploration program with Castle Tin Mines Limited on the White mining properties. At that time it was estimated that Merit's portion of the cost of the program would be \$96,000. To January 31, 1968 Merit has advanced \$84,670 towards this program of which \$16,670 is recoverable from Castle.
5. Merit and Castle Tin have agreed in principle to the purchase of the assets of Castle Tin by Merit and the assumption by Merit of the liabilities of Castle Tin subject to the approval by shareholders and regulatory bodies. The details of the plan have not been finalized. However, Merit will issue to Castle Tin a number of shares equal to the outstanding share capital of Merit immediately prior to acquisition of the Castle Tin assets.

MERIT OIL LTD.

CONSOLIDATED SCHEDULE OF MINING PROPERTIES AND RELATED EXPENDITURES

AS AT JANUARY 31, 1968

	January 31, <u>1968</u>	May 31, <u>1967</u>
WOODSREEF PROPERTY - New South Wales, Australia		
Mining properties		
40 Applications to enter on 35,215 acres		
2 Applications for authority to prospect on 270 acres		
1 Application for special lease on 849 acres		
The above applications were made on property covered by mineral exploration licence #30 and are recorded at the cost of the licence	\$ 5,112	5,112
Exploration and development expenditures	<u>44,524</u>	<u>40,195</u>
	49,636	45,307
Less		
Proceeds from sale of 50% interest to Castle Tin Mines Limited	<u>21,466</u>	<u>-</u>
	28,170	45,307
ESDAILE PROPERTIES - New South Wales, Australia		
Mining property		
7 mining leases, at cost	<u>2,400</u>	<u>2,400</u>
	\$ <u>30,570</u>	<u>47,707</u>

MERIT OIL LTD.

CONSOLIDATED STATEMENT OF DEFERRED EXPLORATION AND DEVELOPMENT EXPENDITURES
FOR THE EIGHT MONTHS ENDED JANUARY 31, 1968

	Eight Months Ended <u>January 31, 1968</u>	Year Ended <u>May 31, 1967</u>
Assaying	\$ -	322
Bulldozer and equipment rentals	191	2,324
Freight and cartage	-	186
Fuel	38	352
Geological surveys	1,386	14,810
Mining rental and lease	2,323	122
Miscellaneous	13	306
Repairs and maintenance	-	666
Supplies	19	618
Telephone	-	284
Travel	359	2,815
Wages and provisions	<u>-</u>	<u>5,488</u>
	4,329	28,293
Balance at beginning of period	<u>40,195</u>	<u>11,902</u>
BALANCE AT END OF PERIOD	<u>\$ 44,524</u>	<u>40,195</u>

MERIT OIL LTD.

CONSOLIDATED STATEMENT OF ADMINISTRATIVE EXPENSES AND DEFICIT
FOR THE EIGHT MONTHS ENDED JANUARY 31, 1968

	Eight Months Ended <u>January 31, 1968</u>	Year Ended <u>May 31, 1967</u>
ADMINISTRATIVE EXPENSES		
Accounting and secretarial fees	\$ 2,354	1,016
Administrative fees	4,700	10,655
Bank charges and interest	214	169
Depreciation	603	1,183
Directors' meetings	-	771
General	207	1,086
Legal and audit fees	5,851	4,907
Registrar and transfer agent's expense	1,658	2,615
Rent	1,200	1,800
Reports to shareholders and public	3,617	2,447
Telephone and telegraph	727	3,456
Travel	1,227	9,375
Taxes and licences	501	343
Salaries	3,200	1,400
Office supplies and expense	958	2,586
Provision for doubtful accounts	72	2,692
Loss (gain) on disposal of fixed assets	<u>175</u>	<u>(96)</u>
	27,264	46,405
Less		
Interest - net	<u>145</u>	<u>5,547</u>
	27,119	40,858
Deficit at beginning of period	<u>2,409,945</u>	<u>2,369,087</u>
DEFICIT AT END OF PERIOD	<u>\$ 2,437,064</u>	<u>2,409,945</u>

MERIT OIL LTD.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE EIGHT MONTHS ENDED JANUARY 31, 1968

	Eight Months Ended <u>January 31, 1968</u>	Year Ended <u>May 31, 1967</u>
FUNDS DERIVED FROM		
Sale of shares	\$ 152,523	-
Proceeds from sale of 50% interest in mineral exploration licence #30	21,466	-
Proceeds on disposal of fixed assets	<u>301</u>	<u>939</u>
	174,290	939
	<u> </u>	<u> </u>
FUNDS APPLIED TO		
Administrative expenses less depreciation and loss on disposal of fixed assets	26,341	39,675
Acquisition of mining properties	-	1,200
Exploration and development expenditures	4,329	28,293
Investment in and advances to other mining company	62,242	62,911
Purchase of fixed assets	<u>-</u>	<u>4,735</u>
	92,912	136,814
	<u> </u>	<u> </u>
INCREASE (DECREASE) IN WORKING CAPITAL	81,378	(135,875)
Working capital at beginning of period	<u>56,675</u>	<u>192,550</u>
WORKING CAPITAL AT END OF PERIOD	<u>\$ 138,053</u>	<u>56,675</u>

SUBSIDIARIES OF MERIT OIL LTD.

(a) Woodsreef Asbestos Company Limited, active company, incorporated under the laws of the State of New South Wales, Australia by Memorandum of Association, authorized share capital - 20,000 ordinary shares with a par value of 50¢ Australian each, issued and outstanding - 8,802, Merit owns all 8,802 issued shares.

(b) Videocable Corporation Limited, inactive company, incorporated under the laws of Ontario by letters patent, authorized share capital - 3,500 6% cumulative redeemable non-participating preference shares with par value of \$100 each redeemable at \$105 and 1,000 common shares without nominal or par value, issued and outstanding - 3,500 preference shares and 1,000 common shares, Merit owns all 3,500 preference shares and 1,000 common shares issued.

(c) Perlite Consolidated Industries Pty. Limited, in liquidation, incorporated under the laws of the State of New South Wales, Australia by Memorandum of Association, authorized share capital - 60,000 ordinary shares with par value of \$2.00 Australian each, issued and outstanding - 57,770 shares, Merit owns 42,670 of the issued shares.

INTERIM ACCOUNTS ONLY IN AUSTRALIAN DOLLARSWHITE ASBESTOS (MINING) PTY. LIMITEDBALANCE SHEET AS AT 31ST JANUARY, 1968

<u>As at</u> <u>31.5.1967</u> \$			<u>As at</u> <u>31.1.1968</u> \$
<u>AUTHORIZED CAPITAL</u>			
	4,000,000 Ordinary Shares of 50 cents each		
<u>\$2,000,000</u>		<u>\$2,000,000</u>	
<u>ISSUED CAPITAL</u>			
	165,536 Ordinary Shares of 50 cents each fully paid		
82,768			82,768
<u>DEFERRED LIABILITIES</u>			
	Castle Tin Mines Limited - Advance		
9,316	(Can.\$63,591.50)	52,993	
	Merit Oil Limited - Advance		
10,000	(Can.\$110,501.45)	<u>92,085</u>	
		145,078	
	<u>Less:</u> Exchange Fluctuation Account	<u>1,059</u>	
		144,019	
	Woodsreef Asbestos Company Limited		
29,171	Advance No. 1	22,968	
	Woodsreef Asbestos Company Limited		
71,305	Advance No. 2	<u>72,669</u>	239,656
<u>CURRENT LIABILITIES</u>			
	560 Accrued Charges	250	
	360 Trade Creditors	29,156	
-	Other Creditors	<u>456</u>	29,862
<u>CAR CREDITS (PTY.) LIMITED</u>			
	Hire Purchase Accounts		
	Due within twelve months	1,224	
	Due after twelve months	<u>882</u>	
		2,106	
-	<u>Less:</u> Hiring charges not yet due	<u>206</u>	1,900
<hr/>			
\$203,480			\$354,186
<hr/>			

- NOTES:
- Under an agreement a payment of \$2,000 per annum becomes due to the vendor of a Mining Lease when the company commences production with "a large operating plant".
 - There is a contingent liability in respect of mining subsidies received from The Department of Mines if and when production is commenced.
 - Where applicable, Canadian Dollars have been converted at C.\$1.20 = A\$.1.00

INTERIM ACCOUNTS ONLYWHITE ASBESTOS (MINING) PTY. LIMITEDBALANCE SHEET AS AT 31ST JANUARY, 1968

<u>As at</u> <u>31.5.1967</u>			<u>As at</u> <u>31.1.1968</u>
\$		\$	\$
<u>FIXED ASSETS</u>			
	PLANT - At cost to 31st May, 1967	847	
	<u>Add:</u>	<u>130</u>	
		977	
609	<u>Less:</u> Provision for Depreciation	<u>289</u>	688
<u>FURNITURE AND FITTINGS AND EQUIPMENT</u>			
	At Cost to 31st May, 1967	287	
	<u>Add:</u> Additions during period	<u>1,828</u>	
		2,115	
249	<u>Less:</u> Provision for Depreciation	<u>93</u>	2,022
	<u>MOTOR VEHICLES</u> - At Cost	6,179	
-	<u>Less:</u> Provision for Depreciation	<u>179</u>	6,000
67	<u>LOOSE TOOLS</u> - At Cost		67
	<u>LEASES</u> - At Cost		
-	Mining Purpose Lease No. 1273		50
<u>CURRENT ASSETS</u>			
100	Cash on Hand		110
	National Bank of Australasia Limited		
10	George Street, Sydney		-
-	Bank of New South Wales, Barraba		18,703
-	Deposits - Others		42
-	Deposits - Mines Department		40
250	Deposits on Leases		250
684	Fahey and Lind Trust Account		-
74	Prepayments		175
-	Other Debtors		7,631
1,329	<u>PRELIMINARY EXPENSES</u>		1,329
<u>UNRECOUPED CAPITAL EXPENDITURE</u>			
175,695	Exploration and Development Account	283,410	
23,184	Administration Expenses	29,611	
1,229	Mine Buildings	<u>4,058</u>	317,079
<hr/>			
\$203,480			\$354,186
<hr/>			

INTERIM ACCOUNTS
ONLY

WHITE ASBESTOS (MINING) PTY. LIMITED

ADMINISTRATION EXPENSES ACCOUNT FOR THE EIGHT
MONTHS ENDED 31ST JANUARY, 1968

<u>1.10.1966</u> to <u>31.5.1967</u>			<u>1.6.1967</u> to <u>31.1.1968</u>
\$		\$	\$
17,187	Balance brought forward from 31st May, 1967		23,184
48	Accountancy Fees	-	
2,529	Administration Costs	1,400	
250	Audit Fees	250	
711	Bank Charges	54	
-	Electricity	39	
-	Entertainment	387	
211	General Expenses	84	
369	Insurance	222	
-	Hiring Charges written off	36	
109	Legal Expenses	104	
291	Office Maintenance	234	
(17)	Payroll Tax	-	
482	Postages and Telephone	439	
68	Printing, Stationery and Advertising	611	
175	Rent	215	
-	Salaries	1,013	
-	Sydney Office Expenses	348	
698	Travelling Expenses	714	6,150
23,111			29,334
73	Depreciation		285
23,184			29,619
-	<u>Less: Discount Received</u>		8
\$23,184			\$29,611

INTERIM ACCOUNTS
ONLY

WHITE ASBESTOS (MINING) PTY. LIMITED

EXPLORATION AND DEVELOPMENT ACCOUNT FOR THE EIGHT
MONTHS ENDED 31ST JANUARY, 1968

<u>1.10.1966</u> to <u>31.5.1967</u>			<u>1.6.1967</u> to <u>31.1.1968</u>
\$		\$	\$
21,641	Prospecting Expenses prior to Incorporation		-
140,359	Balance brought forward from 31st May, 1967		175,695
-	Assaying Expenses	3,617	
34	Building Repairs	-	
144	Car Allowance	-	
117	Cartage and Freight	909	
798	Core Consignment	1,812	
-	Drilling	73,796	
-	Entertainment Expenses	41	
-	Electricity	1,219	
839	Field Expenses	-	
71	General Expenses	308	
7,580	Geological and Mapping and Engineering Fees	20,172	
-	Geophysical Survey	3,074	
-	Insurance	5	
793	Lease costs and rentals	804	
-	Legal Fees	651	
-	Miscellaneous Stores, Supplies and Hardware	415	
-	Maps, Publications, Subscriptions	170	
-	Personnel Moving Costs	826	
545	Petrol and Fuel, and Motor Vehicle Expenses	879	
-	Plant and Equipment Hire	180	
-	Postages, Printing and Stationery	13	
10	Plant Repairs	-	
-	Repairs and Maintenance	322	
-	Road and Site Clearing	1,138	
-	Rent Subsidy	230	
2,908	Salaries, Wages and Allowances	16,813	
-	Telephone and Cables	53	
56	Tools	33	
-	Travelling Expenses	2,292	
-	Trenching	1,200	
-	Workers Compensation Insurance	60	131,032
175,895			306,727
200	<u>Less:</u> Plant Hire Recouped	-	
-	Expenses re previous year transferred to Leases	50	
-	Government Subsidies	23,267	23,317
<u>\$175,695</u>			<u>\$283,410</u>

WHITE ASBESTOS (MINING) PTY. LIMITED

We, the undersigned, being two of the directors of White Asbestos (Mining) Pty. Limited do hereby state that in the opinion of the Board of Directors the annexed balance sheet is drawn up so as to exhibit a true and fair view of the state of affairs of the company at 31st January, 1968, and further that the annexed profit and loss account is drawn up so as to give a true and fair view of the results of the business of the company for the period covered.

For and on behalf of the Board of Directors

"G. W. Punch")	
)	
)	DIRECTORS
"K. R. Besly")	

We report that we have examined the annexed balance sheet and profit and loss account of White Asbestos (Mining) Pty. Limited relating to the period ended 31st January, 1968. In our opinion this balance sheet and accompanying profit and loss account read as incorporating the notes thereto are properly drawn up in accordance with the provisions of the Companies Act, 1961 as amended, of New South Wales and so as to give a true and fair view of the state of the company's affairs as at 31st January, 1968 and the results for the period then ended.

We further report that in our opinion the accounting and other records (including registers) which the company is required to keep under the Companies Act, 1961 as amended, of New South Wales have been properly kept in accordance with that Act.

"Cox Johnston & Co."

Chartered Accountants
Registered under the Public
Accountants Registration
Act, 1945 as amended.

MATERIAL CONTRACTS OF MERIT AND MERIT'S SUBSIDIARIES AND WHITE

1. See Schedule A, item 1.
2. See Schedule A, item 2.
3. Agreement dated December 5, 1967 between White Asbestos (Mining) Pty. Limited and Sonda Drilling Pty. Ltd. (name changed to Long-year Drilling Pty. Ltd. January 3, 1968) for diamond drilling.
4. Agreement between White Asbestos (Mining) Pty. Limited and the vendor of a Mining Lease whereby a payment of \$2,000 Australian becomes due to the vendor when White commences production with "a large operating plant".

MERIT OIL LTD.

WHITE ASBESTOS (MINING) PTY. LIMITED

M.L. = Mineral Lease

M.L.A. = Mineral Lease Application

A.E. = Authority to Enter

A.A.E. = Application for Authority to Enter

<u>Name</u>	<u>Acres</u>	<u>Term in Years</u>	<u>From</u>	<u>Rental Aust.\$</u>	<u>Can.\$ Equivalent</u>
M.L. 5866	12	20	June 8/64	7	9
5867	28	20	June 8/64	15	18
5868	3	20	June 8/64	2	2
5825	61	20	Mar.22/63	12	14
5826	63	20	Apr.23/63	13	16
5827	33	20	Apr.23/63	7	8
5918	10	20	Oct.23/64	6	7
5879	8	20	June 8/64	5	6
5928	6	20	Dec.17/64	4	5

<u>Name</u>	<u>Acres</u>	<u>Date of possession</u>	<u>Date of Application</u>	<u>Rental Aust.\$</u> (if granted)	<u>Can.\$ Equivalent</u>
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M.L.A. (private lands)

297	80	May 20/63	May 23/63	324	389
298	72	May 20/63	May 27/63	288	346
314	15	Mar.17/64	Mar.17/64	60	72
315	52	Mar.16/64	Mar.17/64	212	254
329	10	Apr.7/67	Apr.10/67	40	48
328	121	Apr.7/67	Apr.10/67	484	581
327	40	Apr.7/67	Apr.10/67	160	192

M.L.A. (Crown Lands)

307	80	Dec.11/63	Dec.11/63	40	48
308	80	Dec.11/63	Dec.11/63	40	48
309	80	Dec.11/63	Dec.11/63	40	48
310	80	Dec.11/63	Dec.11/63	40	48
311	80	Dec.11/63	Dec.11/63	40	48
312	80	Dec.16/63	Dec.16/63	40	48
313	600	Dec.16/63	Dec.16/63	300	360
316	3	Apr.20/64	Apr.20/64	2	2
319	163	Nov. 9/64	Nov.11/64	82	98
320	340	Nov. 9/64	Nov.11/64	170	204
321	157	Nov. 9/64	Nov.11/64	79	95

WHITE ASBESTOS

<u>Name</u>	<u>Acres</u>	<u>Date of Possession</u>	<u>Date of Application</u>	<u>Rental Aust.\$</u> (if granted)	<u>Can. \$ Equivalent</u>
-------------	--------------	---------------------------	----------------------------	---------------------------------------	---------------------------

M.L.A. (Crown Lands)

322	33	Dec.16/64	Dec.16/64	17	20
330	3	Feb.16/68	Feb.19/68	2	2

<u>Name</u>	<u>Acres</u>	<u>Date of Authority</u>	<u>Date of Expiry</u>	<u>Rental Aust.\$</u>	<u>Can. \$ Equivalent</u>
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A.E. 2180	819	Nov.14/67	Nov.13/68	25	31
2181	200	Nov.14/67	Nov.13/68	6	7

<u>Name</u>	<u>Acres</u>	<u>Date of Application</u>
A.A.E. 2215	100	Jan. 11/67 (Rent to be
2217	537	Jan. 11/67 (
2222	1	May 17/67 (fixed by
2226	8	Nov. 13/67 (
2227	14	Nov.13/67 (Mining Warden upon
		(
		(hearing of applica-
		(
		(tion

White also owns Mining Purpose Lease #1273.

EASTERN PROPERTY, HELD IN THE NAME OF WOODSREEF,
 PROPERTIES BEING WITHIN THE LIMITS OF FORMER
MINERAL EXPLORATION LICENCE NO.30.

Woodsreef and Castle each have an undivided 50% interest
 in the properties following, save and except the "Esdaile"
 properties.

A.A.E. = Application for Authority to Enter on Private Lands

A.A.P. = Application for Authority to Prospect on Crown Lands

A.S.L. = Application for Special Lease of Crown Land

A.L. = Application for Lease of Private Land.

<u>Name</u>	<u>Acres</u>	<u>Aust.\$ Rental</u>	<u>Can.\$ Equivalent</u>
A.A.E. 1602	942	28	34
1603	975	29	35
1604	973	29	35
1605	861	26	31
1606	931	28	34
1607	958	29	35
1608	956	29	35
1609	838	25	30
1610	825	25	30
1611	878	26	31
1612	860	26	31
1613	837	25	30
1614	960	29	35
1615	946	28	34
1616	960	29	35
1617	320	10	12
1618	982	29	35
1619	649	20	24
1620	966	29	35
1621	779	23	28
1622	994	30	36
1623	971	29	35
1624	941	28	34
1625	816	24	29
1626	967	29	35
1627	913	27	32
1628	960	29	35
1629	920	28	34
1630	959	29	35
1631	839	25	30
1632	975	29	35

EASTERN PROPERTY, HELD IN THE NAME OF WOODSREEF,
PROPERTIES BEING WITHIN THE LIMITS OF FORMER
MINERAL EXPLORATION LICENCE NO.30

<u>Name</u>	<u>Acres</u>	<u>Aust.\$ Rental</u>	<u>Can.\$ Equivalent</u>
A.A.E.	1633	960	29
	1634	960	29
	1635	922	28
	1636	777	23
	1637	940	28
	619	960	29
	620	936	28
	621	960	29
	622	135	4
			35
			35
			34
			28
			34
			35
			5

<u>Name</u>	<u>Acres</u>
A.A.P. 108	80
109	190
A.S.L. ---	849
A.L. 540)	
541)	57
542)	

"ESDAILE" PROPERTY

Woodsreef owns solely the following properties which are in the course of being transferred pursuant to the exercise of an option:

PML	1)	
	2)	
	21)	being a total of 208
	22)	acres
	23)	
	29)	

being Mining Leases Nos. 1052, 1054, 1065, 1068, 3579, 3581 and 3585.

RIDDELL, STEAD, GRAHAM & HUTCHISON

CHARTERED ACCOUNTANTS

48 YONGE STREET

TORONTO 1, ONTARIO

AUDITORS' REPORT

To The Directors
Castle Tin Mines Limited

We have examined the consolidated balance sheet of Castle Tin Mines Limited as at January 31, 1968 and the consolidated statements of operations and deficit, deferred exploration and development expenditure, administrative expense, mine operations and source and application of funds for the period then ended. Our examination of the financial statements of Castle Tin Mines Limited and the subsidiary of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion these financial statements present fairly the financial position of the companies as at January 31, 1968 and the results of their operations and the source and application of their funds for the period then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Riddell, Stead, Graham & Hutchison

Toronto, Ontario
March 22, 1968

CASTLE TIN MINES LIMITED

CONSOLIDATED BALANCE SHEET AS AT JANUARY 31, 1968

ASSETS	January 31, 1968	May 31, 1967
CURRENT ASSETS		
Cash	\$ 116,266	38,111
Accounts receivable	4,218	3,001
Inventories, at cost	-	5,980
Prepayments and deposits	<u>3,673</u>	<u>6,482</u>
	124,157	53,574
	<u> </u>	<u> </u>
INVESTMENT IN WHITE ASBESTOS (MINING) PTY. LIMITED, at cost		
Option to purchase 50% interest in shares (Note 5)	2,874	821
Advances (Note 6)	<u>80,262</u>	<u>11,392</u>
	<u>83,136</u>	<u>12,213</u>
MINING PROPERTIES AND RELATED EXPENDITURES, see schedule (Notes 2, 3, 4 and 6)	373,375	837,880
	<u> </u>	<u> </u>
OTHER ASSETS, at cost		
Office furniture and fixtures, less depreciation of \$324	1,289	1,667
Incorporation expenses	<u>4,552</u>	<u>4,553</u>
	<u>5,841</u>	<u>6,220</u>
	\$ 586,509	909,887
	<u> </u>	<u> </u>

Signed on behalf of the Board:

"R. Macaulay" Director.

"J. H. Black" Director.

CASTLE TIN MINES LIMITED

CONSOLIDATED BALANCE SHEET AS AT JANUARY 31, 1968

LIABILITIES

	January 31, 1968	May 31, 1967
CURRENT LIABILITIES		
Bank indebtedness	\$ 15,301	22,200
Accounts, payable and accrued	23,280	91,844
Due to Foresite Explorations Pty. Limited	-	12,760
Contracted liability on option to purchase mineral leases	-	14,400
Due on purchase of equipment - secured	-	1,872
Loans from shareholders	1,500	-
Due to Merit Oil Ltd. (Note 6)	16,670	-
	<u>56,751</u>	<u>143,076</u>

FUTURE COMMITMENTS AND CONTINGENT LIABILITIES (Notes 2, 3, 5, 6, and 9)

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 7)

Authorized

5,000,000 shares with a par value of \$1 each

Issued

Shares	Par Value	Discount	
750,000 for property	\$ 750,000	742,500	7,500
625,470 for debts	625,470	362,688	262,782
<u>2,984,569 for cash</u>	<u>2,984,569</u>	<u>1,890,236</u>	<u>1,094,333</u>
4,360,039	\$ 4,360,039	2,995,424	1,364,615
			1,050,791

DEFICIT - see statement 1 (Note 1)

834,857	283,980
<u>529,758</u>	<u>766,811</u>
<u>\$ 586,509</u>	<u>909,887</u>

CASTLE TIN MINES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE EIGHT MONTHS ENDED JANUARY 31, 1968

1. Castle Tin Mines Limited was incorporated on April 21, 1965 and acquired the ownership of "Mareeba" on May 29, 1965 and "Dover" on December 29, 1965 at the cost to the original investors. Mareeba was incorporated February 19, 1962 as Perlite Consolidated Industries (Queensland) Pty. Limited but remained inactive until November 24, 1964 at which time the corporate name was changed to Mareeba Mining & Exploration Pty. Limited. During that period expenses were \$372. "Dover" was incorporated May 28, 1965 as Dover Tin Mines Limited and its wholly-owned subsidiary was incorporated May 11, 1965 as Dover Tin Mines Pty. Limited.

The financial statements reflect the operations of the companies since incorporation, rather than showing the deficits of Mareeba and Dover at acquisition as the excess of cost over book value of assets of subsidiaries.

All transactions of Castle and its subsidiary companies are referred to as transactions of "Castle" in the following notes.

2. The option to purchase Mineral Leases 1223, 1253, 1255 and 1364 has been recorded at \$45,888 being the total of the payments on account to date of \$42,000 and legal costs of \$3,888. In addition, to exercise the option on the property an amount of \$18,000 must be paid on or before April 14, 1968.
3. By agreement dated November 16, 1965 "Castle" acquired 4 dredging leases, of which one has now been abandoned. The purchase price was \$24,000 of which \$24 was paid on signing and was recorded as the asset value (now reduced to \$19). The balance is payable, with interest at 6%, only upon "Castle" producing for sale tin concentrate from any part of the property, or assigning, selling, pledging, mortgaging or conveying any part of its interest in the property, and has therefore been considered a contingent liability. Should "Castle" fail to sell tin concentrate from the property by November 16, 1968 the Vendor is entitled to repurchase the property for \$24 providing "Castle" has not paid the remainder of the purchase price.
4. Depletion was provided for the year ended May 31, 1967 based upon the production from the Mareeba property, Crystal Brook area only, and was calculated by relating the tin concentrate produced to the probable and possible reserves as recorded in the report of A.C.A. Howe dated May 23, 1967.

As of July 21, 1967 the mining operations on the Mareeba properties were suspended because the indicated ore, being of a low grade, could not be recovered profitably with the size of the present plant. Due to the uncertainty of future operations the investment in property, equipment and exploration expenditures has been written down to \$60,000 being the anticipated net recovery value on sale.

5. The company is the registered holder of 50% of the outstanding share capital of White Asbestos (Mining) Pty. Limited. The purchase agreement required a payment of \$821 on account and an advance of \$11,179 to White. Legal fees of \$2,053 have been paid in connection with the purchase resulting in a cost of investment in shares of \$2,874. To complete the purchase the following payments must be made

\$12,000 on or before April 30, 1968
\$12,000 on or before April 30, 1969
\$81,553 on or before April 30, 1970

Upon default of any of the above payments the company could forfeit its interest in the shares, and in the event of default the company would be released from any claim for the unpaid balance, and would not be entitled to recover payments made to that date. The transaction has therefore been regarded as an option to purchase the shares of White Asbestos (Mining) Pty. Limited.

Should White decide to commence production from the property prior to April 30, 1970 "Castle's" interest could be reduced by 5% by the original holder of the shares exercising its option to acquire a 10% interest in the company by subscription for capital stock of White Asbestos (Mining) Pty. Limited.

6. "Castle" entered into a joint exploration program with Merit Oil Ltd. on the White Asbestos properties, at which time it was estimated that Castle's portion of the cost of the program would be \$96,000. To January 31, 1968 Castle has incurred \$68,000 in costs regarding the program of which it has advanced \$51,330 and is indebted to Merit Oil Ltd. in the amount of \$16,670. In order to retain its interest each company must contribute its share of the costs, providing the other company completes the program.

"Castle" has also purchased from Merit Oil Ltd. a 50% interest in the "Woodsreef" properties (as described in the schedule of mining properties) for \$21,466 and agreed to a joint exploration program. The program was laid out in stages and Castle's share of stage 1 would be \$4,700 and if warranted stage 2 would be \$7,300. Neither stage has been commenced.

7. During the eight month period ended January 31, 1968, 784,560 shares of the capital stock of the company were sold for cash.

Subsequent to January 31, 1968, 60,000 shares of the capital stock of the company were sold to a director at 45¢ per share pursuant to an agreement dated February 8, 1968.

By agreement dated December 21, 1965, and amended February 27, 1968 the company granted an option to its president on 90,000 shares of the capital stock of the company exercisable at \$1 on or before March 8, 1970.

8. "Castle" and "Merit" have agreed in principle to the sale of the assets of "Castle" to "Merit" and assumption by "Merit" of the liabilities of "Castle" subject to approval by shareholders and regulatory bodies. The details of the plan have not been finalized, however, "Castle" will receive and distribute to its shareholders a number of shares of Merit equal to the outstanding share capital of "Merit" immediately prior to its acquisition of the "Castle" assets.
9. A claim may be made against the company for the use of equipment. The company does not consider itself liable, however, should the claim be made and prove valid it is not expected to exceed \$7,000.
10. An insurance claim receivable is outstanding for an undetermined amount regarding ore which was misplaced or stolen.
11. The accounts of the Australian subsidiaries have been converted to Canadian dollars at the rate of \$1.20 Canadian to the Australian dollar.

CASTLE TIN MINES LIMITED

CONSOLIDATED SCHEDULE OF MINING PROPERTIES AND RELATED EXPENDITURES

AS AT JANUARY 31, 1968

	January 31, 1968	May 31, 1967
DOVER PROPERTIES - New South Wales, Australia		
Mining properties		
Option to purchase 4 mineral leases acquired for cash including legal costs of \$3,888 (Note 2)	\$ 45,888	45,888
Option to purchase mineral lease and mineral leases	-	76,857
1 Mineral lease acquired by staking	192	192
Exploration and development expenditures - see statement 2 (Note 1)	242,459	233,610
Equipment less depreciation of \$528	<u>2,579</u>	<u>5,459</u>
Totals	\$ <u>291,118</u>	<u>362,006</u>
MAREEBA PROPERTIES - New South Wales, Australia		
Mining properties		
8 Mineral leases acquired for cash	\$ 56,285	56,285
9 Dredging leases acquired by staking	1,859	1,859
2 Dredging leases acquired for 750,000 shares of capital stock valued at 1¢ per share and legal costs of \$1,201	8,701	8,701
3 Dredging leases acquired for cash and an agreement to pay an additional \$23,976 from production (Note 3)	19	19
Exploration and development expenditures - see statement 2 (Note 1)	331,303	303,268
Dams, at cost less depreciation of \$2,077	29,182	30,013
Plant and equipment less depreciation of \$112,624	<u>96,457</u>	<u>134,700</u>
	523,806	534,845
Less -		
Depletion, amortization and write-down of property (Note 4)	<u>463,806</u>	<u>61,000</u>
	\$ <u>60,000</u>	<u>473,845</u>
WOODSREEF PROPERTIES - New South Wales, Australia (Note 6)		
Mining properties acquired for cash, comprised of		
40 Applications to enter on 35,215 acres		
2 Applications for authority to prospect on 270 acres		
1 Application for special lease on 849 acres	\$ <u>21,466</u>	<u>-</u>
SUMMARY		
Dover properties	\$ 291,118	362,006
Mareeba properties	60,000	473,845
Woodsreef properties	21,466	-
Sundry deposits	<u>791</u>	<u>2,029</u>
	\$ <u>373,375</u>	<u>837,880</u>

CASTLE TIN MINES LIMITED

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

FOR THE EIGHT MONTHS ENDED JANUARY 31, 1968

	Eight Months Ended <u>January 31, 1968</u>	Year Ended <u>May 31, 1967</u>
Exploration and development expenditure	\$ 45,753	97,638
Less -		
Deferred, see statement 2	<u>45,753</u>	<u>81,481</u>
Exploration and development - Fynns area	-	16,157
Other mining assets in Fynns area	-	17,613
Dam at Dimbullah	-	6,350
Options on and mineral leases, Dover properties	76,857	-
Depletion, amortization and write down of Mareeba mining properties (Note 4)	402,806	61,000
Stockpile of alluvials	5,074	-
Administrative expenses, see statement 3	<u>65,382</u>	<u>63,624</u>
	550,119	164,744
Mining profit (loss), see statement 4	(<u>758</u>)	<u>15,937</u>
	550,877	148,807
Deficit at beginning of period	<u>283,980</u>	<u>135,173</u>
DEFICIT AT END OF PERIOD	<u>\$ 834,857</u>	<u>283,980</u>

CASTLE TIN MINES LIMITED

CONSOLIDATED STATEMENT OF DEFERRED EXPLORATION AND
DEVELOPMENT EXPENDITURE

FOR THE EIGHT MONTHS ENDED JANUARY 31, 1968

	Eight Months Ended January 31, 1968	Year Ended May 31, 1967
MAREEBA PROPERTIES		
Assaying	\$ -	11
Automotive expense	-	735
Depreciation	29,319	8,939
Freight and cartage	-	166
Fuel	-	56
General	10	389
Geological surveys	4,025	17,945
Loss on sale of motor vehicle	17	-
Plant moving costs	-	17,975
Rentals	1,674	2,466
Repairs and maintenance	-	62
Supplies	1	361
Travel	10	653
Wages and provisions	<u>1,379</u>	<u>13,916</u>
	36,435	63,674
Less -		
Depreciation and estimated expenditure Fynns area	-	1,449
Costs forgiven by Foresite Explorations Pty. Limited	<u>8,400</u>	<u>-</u>
	28,035	62,225
Balance at beginning of period	<u>303,268</u>	<u>241,043</u>
BALANCE AT END OF PERIOD	<u>\$ 331,303</u>	<u>303,268</u>
DOVER PROPERTIES		
Assaying	\$ -	1,090
Automotive expense	67	1,358
Bulldozer and equipment rental	-	368
Depreciation	460	1,049
Drilling	-	12,886
Freight and cartage	-	522
Fuel	361	140
General	74	314
Geological surveys	1,876	4,253
Loss on sale of motor vehicle	500	-
Rentals	1,468	1,163
Repairs and maintenance	583	534
Supplies	108	338
Travel	371	955
Wages and provisions	<u>3,450</u>	<u>6,080</u>
	9,318	31,050
Less -		
Adjustment of 1967 rental expense	-	475
Bonus from workmen's compensation insurance	<u>469</u>	<u>-</u>
	8,849	30,575
Balance at beginning of period	<u>233,610</u>	<u>203,035</u>
BALANCE AT END OF PERIOD	<u>\$ 242,459</u>	<u>233,610</u>

CASTLE TIN MINES LIMITED

CONSOLIDATED STATEMENT OF ADMINISTRATIVE EXPENSE

FOR THE EIGHT MONTHS ENDED JANUARY 31, 1968

	Eight Months Ended <u>January 31, 1968</u>	Year Ended <u>May 31, 1967</u>
Accounting and secretarial fees	\$ 2,472	1,814
Administrative fees	-	5,011
Audit fees	5,154	5,497
Bank charges and interest	201	2,078
Consulting fees	10,797	6,345
Depreciation	66	134
Filing and governmental fees	29	157
General	2,090	891
Insurance	1,147	1,118
Legal fees	14,085	16,197
Postage, printing and stationery	6,411	4,479
Registrar and transfer agent's expense	1,987	705
Rent	1,824	2,490
Reports to shareholders and public	4,972	711
Telephone and telegraph	2,574	5,715
Travel and accommodation	4,019	2,413
Wages and salaries	6,405	5,968
Exchange adjustment	<u>1,294</u>	<u>585</u>
	65,527	62,308
Add -		
Adjustment of prior year's expenses	<u>-</u>	<u>1,316</u>
	65,527	63,624
Less -		
Miscellaneous income	<u>145</u>	<u>-</u>
	<u>\$ 65,382</u>	<u>63,624</u>

CASTLE TIN MINES LIMITED

CONSOLIDATED STATEMENT OF MINE OPERATIONS

FOR THE EIGHT MONTHS ENDED JANUARY 31, 1968

	Eight Months Ended January 31, 1968	Year Ended May 31, 1967
ORE SALES	\$ 105,847	459,446
EXPENSES		
Administrative	3,551	4,211
Assays	106	282
Bulldozing, trenching and earthmoving	51,883	186,156
Commission on ore sales	1,282	5,581
Engineering consulting fees	1,782	13,561
Freight and cartage	347	3,267
Fuel	5,287	20,128
General	322	212
Insurance on ore shipments	185	486
Interest	1,609	3,317
Rental of equipment	55	7,987
Railage, wharfage and handling	3,811	12,127
Repairs to plant, equipment and motor vehicles	6,822	42,456
Supplies	452	3,157
Travelling	1,208	5,778
Wages and provisions	19,639	90,860
	<u>98,341</u>	<u>399,566</u>
NET PROFIT BEFORE PROVISION FOR DEPRECIATION, DEPLETION AND AMORTIZATION	7,506	59,880
Less -		
Depreciation	<u>8,264</u>	<u>47,058</u>
	(758)	12,822
Add -		
Adjustment to wages and provisions for prior year	<u>-</u>	<u>3,115</u>
MINING PROFIT (LOSS) BEFORE PROVISION FOR DEPLETION AND AMORTIZATION (Note 4)	<u><u>\$ (758)</u></u>	<u><u>15,937</u></u>

CASTLE TIN MINES LIMITED

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE EIGHT MONTHS ENDED JANUARY 31, 1968

	Eight Months Ended <u>January 31, 1968</u>	Year Ended <u>May 31, 1967</u>
FUNDS DERIVED FROM		
Mining operations before provision for depreciation, depletion and amortization	\$ 7,506	62,995
Issue of shares	313,824	242,500
Forgiveness of debt	8,400	-
Sale of equipment	4,224	-
Deposits refunded	<u>1,238</u>	<u>-</u>
	<u>335,192</u>	<u>305,495</u>
FUNDS APPLIED TO		
Acquisition of mining properties	21,466	(13,670)
Dams	-	31,259
Exploration and development	15,505	87,648
Mining equipment	-	23,062
Administrative expense	65,316	63,490
Deposits	-	572
Investment in and advances to another mining company	70,923	12,213
Stock pile of ore written off	<u>5,074</u>	<u>-</u>
	<u>178,284</u>	<u>204,574</u>
INCREASE IN WORKING CAPITAL	156,908	100,921
Working capital deficiency at beginning of period	<u>89,502</u>	<u>190,423</u>
WORKING CAPITAL (DEFICIENCY) AT END OF PERIOD	<u>\$ 67,406</u>	<u>(89,502)</u>

CASTLE TIN MINES LIMITEDMAREEBA MINING AND EXPLORATION PTY. LIMITED

D.L. = Dredging Lease

M.L. = Mineral Lease

<u>Name</u>	<u>Acres</u>	<u>Term in Years</u>	<u>From</u>	<u>Rental Aust.\$</u>	<u>Can.\$ Equival.</u>
<u>(a) Crystal Brook Area</u>					
D.L. 10	86.0	10	Dec.1/64	86	103
11	51.0	10	Dec.1/64	51	60
12	207.0	10	Dec.1/64	207	248
13	79.0	10	Nov.25/64	79	94
29	24.0	10	Aug.1/65	24	29
32	19.0	21	Apr.1/66	19	23
49	75.0	21	Feb.17/67	75	90
50	35.0	21	Feb.17/67	35	42
M.L. 1193	15.3	21	Sept.1/61	16	19
1209	15.0	21	Aug.19/62	15	18
1218	10.0	21	Jan.1/63	10	12
1219	10.0	21	Jan.1/63	10	12
1286	20.0	21	Dec.1/64	20	25
1287	5.0	21	Dec.1/64	5	6
1288	20.0	21	Dec.1/64	20	25
1290	20.0	21	Dec.1/64	20	25
<u>(b) Fulford Area</u>					
D.L. 15	60.0	21	Dec.1/64	60	72
16	60.0	21	Jan.1/65	60	72
17	17.8	21	Jan.1/65	18	22
21	320.0	21	July 1/65	320	384
22	320.0	21	July 1/65	320	384
38	13.5	21	July 1/66	14	17

DOVER TIN MINES PTY. LIMITED

M.L. = Mineral Lease

<u>Name</u>	<u>Acres</u>	<u>Term in Years</u>	<u>From</u>	<u>Rental Aust.\$</u>	<u>Can. \$ Equivalent</u>
M.L. 1223	7.5	21	July 1/64	8	10
1253	320.0	21	July 1/64	320	384
1255	320.0	21	July 1/64	320	384
1307	312.5	21	July 1/65	313	375
1364	300.0	21	June 1/66	300	360

Dover Pty. has exercised its option to purchase Mineral Leases Nos. 1223, 1253, 1255 and 1364 from Colin Jack Bagdan, Mareeba, Queensland, Australia, on April 14, 1968, pursuant to agreements dated May 16, 1965, and April 15, 1966, as amended by an agreement dated as of June 23, 1967.

See also Schedule H, for Castle's interest in the Eastern Property, held in the name of Woodsreef being properties within the limits of former Mineral Exploration Licence No. 30.

File

FOR: MERIT OIL LTD. and CASTLE TIN MINES LTD.

REFERENCE: *Scott-Atkinson*, Only, (International) Limited.
51 Prince Arthur Avenue,
Toronto 5, Ontario.

CONTACT: David Scott-Atkinson
Telephone: 929-3186 or 822-1077 (area code 416)

SUBJECT: Castle Tin Mines and Merit Oil Plan Merger.

PAN

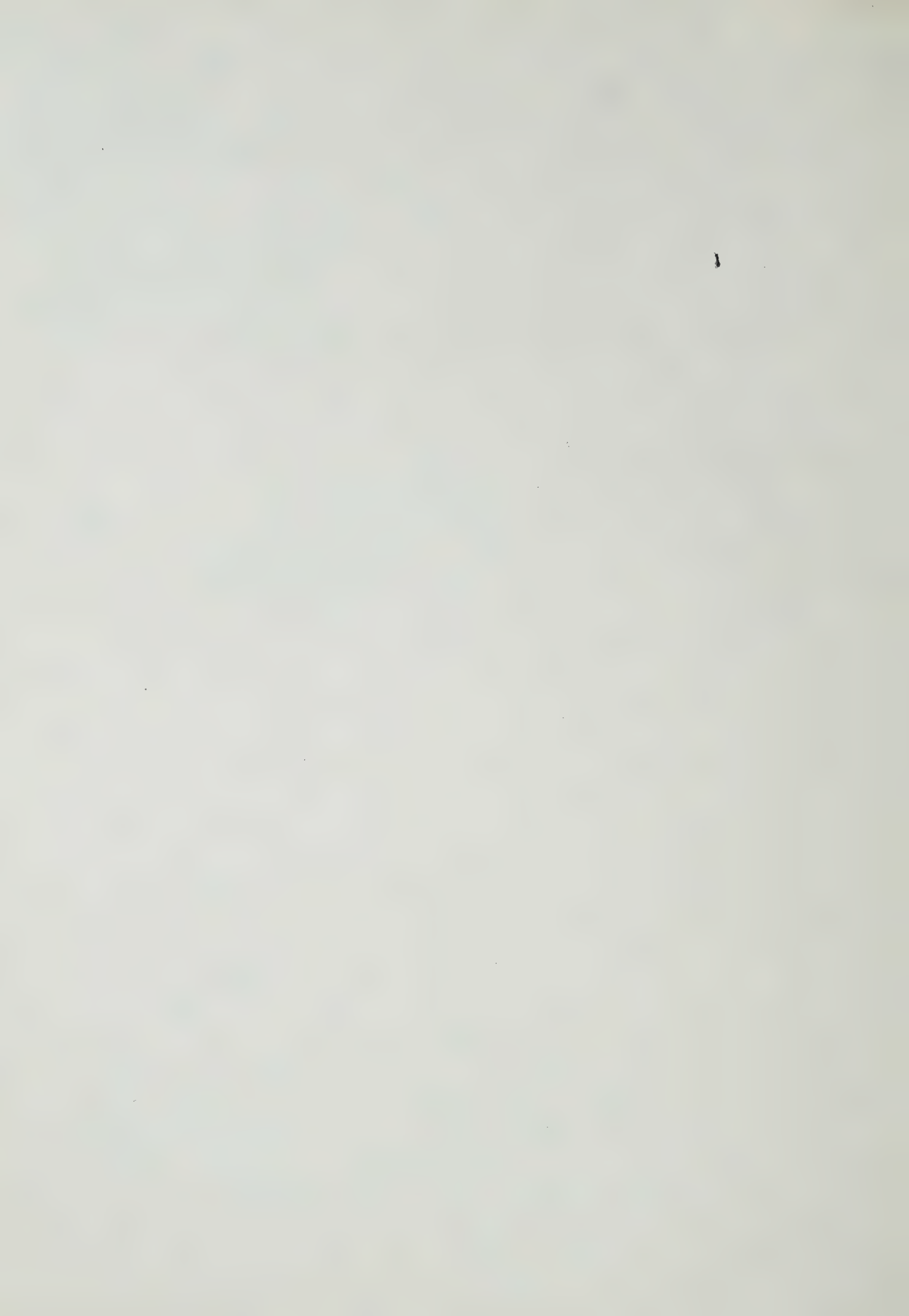
Toronto, March 26 - Merit Oil Ltd. and Castle Tin Mines Ltd.

plan to merge, according to identical letters sent to-day to shareholders by company presidents R.H. Bullied (Merit Oil) and Robert Macaulay (Castle Tin)

Both companies are equal partners in White Asbestos (Mining) Pty. Limited, an Australian company which owns the Woodsreef Asbestos property in New South Wales.

The directors of both companies believe that the current development program demonstrates that a merge is in the interests of both companies.

Acting on a Feasibility Report of November 20th, 1967, by geologists Watts, Griffis and McQuat Ltd. a drilling program, claimed to be the largest ever let in Australia, is in action to outline a minimum of 25 million tons of ore. It provides for 15,000



↑
feet of drilling with an option for an additional 10,000 feet.
The New South Wales Government will share up to 50% of the
costs of direct drilling up to 20,000 feet.

The two companies are presently working out the details of a
formal agreement for approval by regulatory authorities and
shareholders. Details of the agreement will be mailed to
shareholders prior to general meetings.

P.O. BOX 5520,
STATION A,
CALGARY, ALBERTA
TEL. 252-0161

Merit Oil Ltd.

SUITE 1015,
159 BAY STREET,
TORONTO, ONTARIO
TEL. 363-1108

March 26, 1968

Dear Shareholder:

As you are aware, Merit Oil Ltd and Castle Tin Mines Limited are equal partners in White Asbestos (Mining) Pty Limited. This Australian company owns the Woodsreef Asbestos property, where a development program is being managed by Merit Oil. This is a most valuable asset, as indicated by the Preliminary Feasibility Report of November 20th 1967 (Watt's Griffis and McOuat Limited, Consulting Geologists and Engineers) that is in your hands.

The directors of both companies believe the current program developments demonstrate that a merger of Castle & Merit is in the best interests of the shareholders.

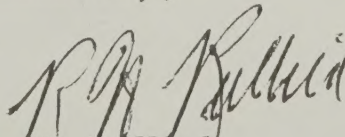
As a consequence a formal agreement is in preparation for such a merger subject to your approval and those of the regulatory authorities of both companies. The details will be mailed to you well in advance of a general meeting which will shortly be called.

The merger will enable both Castle and Merit to reduce overhead and, at the same time, increase operational efficiency. It will also provide a sound base for senior financing when it becomes necessary to bring the property into production.

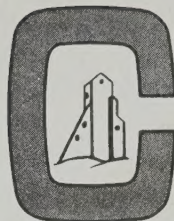
We have acted on the Feasibility Report and a drilling program has been initiated to outline a minimum of 25, million tons of ore. The drilling contract, now in action is one of the largest ever let in Australia. It provides for 15,000 feet of drilling with an option for an additional 10,000 feet if required.

Of particular value to our efforts is the financial support of the Department of Mines of the State of New South Wales. They have approved the grant of a subsidy amounting to 50% of the direct drilling costs up to 20,000 feet to be incurred in the present proving-up exploration program.

Sincerely,


R. H. Bullied
President

CASTLE TIN MINES LIMITED



Suite 1015, 159 Bay Street,

Toronto 1, Ontario / Telephone 363-1108

March 26, 1968

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Sincerely,

President.

